

**MID SESSION FIELD HEARINGS**

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**HEARINGS**  
BEFORE THE  
**COMMITTEE ON THE BUDGET**  
**UNITED STATES SENATE**  
ONE HUNDRED SEVENTH CONGRESS  
SECOND SESSION

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**August 29, 2001—MEDICARE PRESCRIPTION DRUGS**  
**August 31, 2001—THE FARM BILL**



Printed for the use of the Committee on the Budget

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## THE PRESIDENT'S FISCAL YEAR 2002 BUDGET

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WEDNESDAY, AUGUST 29, 2001

U.S. SENATE,  
COMMITTEE ON THE BUDGET,  
*Bismarck, ND*

The committee met, pursuant to notice, at 9:30 a.m., in Medical Staff Conference Rooms 1 & 2, Out Patient Service Building, MedCenter One, Bismarck, North Dakota, Hon. Kent Conrad, chairman of the committee, presiding.

Present: Senator Conrad.

### OPENING STATEMENT OF CHAIRMAN CONRAD

Chairman CONRAD. Why don't we bring the hearing to order.

First, I want to welcome all of you who are here to discuss an issue that is critically important to North Dakota and to the Nation. This is an issue that is critically important to North Dakota and to the Nation, and so we have got excellent witnesses representing North Dakota views as well as an outstanding national witness for this hearing.

This is obviously a time when a lot of focus—as you can see by the news and some ads that are being run on television stations across the State, it is a time of great focus on the issue of providing a prescription drug benefit. That is the topic of our hearing this morning.

As you all know, it is important that we take steps to improve the Medicare program. Since 1965, Medicare has protected seniors from most health care costs, but there are also significant costs that Medicare does not currently cover. The most important of these is prescription drugs, the topic of today's hearing.

This morning I would like to briefly discuss why this is an important issue and talk a little about how this debate is playing out in Washington; then I would like to call on our panelists to discuss the issue in more detail; and, finally, I want to hear what you have to say about Medicare coverage for prescription drugs.

As you all know, virtually all Medicare beneficiaries use pharmaceuticals on a regular basis. The average senior today fills out 22 prescriptions each year and spends over \$860 out-of-pocket on their medications. However, while it is vital that Medicare beneficiaries have access to needed pharmaceuticals, we also know that millions of seniors have difficulty affording and obtaining their prescriptions because they lack affordable drug coverage.

As you can see by this first chart, 27 percent of seniors, more than 10 million people in our country, have no prescription drug coverage, and these, of course, are seniors. While the other approxi-

mately 70 percent have some coverage through employers or supplemental Medigap insurance and Medicare Plus Choice programs, these coverage options are expensive, inadequate, and are diminishing. For example, over the last 50 years, almost 50 percent of employers have dropped coverage. Almost 50 percent have dropped coverage and for many North Dakotans who are self-employed, this source of coverage is not an option.

In addition, we know that premiums for supplemental Medigap plans are on the rise, and in our State the leading supplier of Medigap policies doesn't cover prescription drug costs. Also, unlike seniors in other States, North Dakotans do not have access to drug coverage via the Medicare Plus Choice program or through a State drug assistance plan. Overall, inadequate coverage options combined with skyrocketing drug prices have placed prescription drugs out of the reach of many seniors and have forced many North Dakotans to choose between paying for their food or paying their energy bill or paying their rent and paying for their medicines. I have had many seniors describe to me making the difficult choice of either taking the medicine that was prescribed for them by their doctor or paying their rent.

I have had many seniors explain to me that they have had to cut down the dosages recommended by their doctors because they simply could not afford it. I have had many seniors describe to me cutting their pills in half in order to make them go further. Overall, inadequate coverage options, as I have indicated, combined with these skyrocketing drug costs, have pushed many people out of having the medicine that they need.

To address this problem, I have worked over the last several years with my colleagues to explore ways to add a prescription drug plan to Medicare. Early this year I put forward a budget that would have reserved \$311 billion for adding a prescription drug benefit to Medicare. That \$311 billion would be over a 10-year period. The Congress of the United States passed the budget with \$300 billion for prescription drug coverage in their budget.

Although to, I think, many of us, as we hear these numbers, \$300 billion sounds like an extraordinary amount of money, let me try to put it in some perspective. To receive a benefit as generous as those offered in the Federal Employees Plan, which has no deductible, has 25 percent coinsurance, and covers all costs over \$3,000, to have a plan equivalent to what Federal employees have would cost \$520 billion over the 10-year period. If we were to enact an insurance program similar to those available from private employers, it would cost nearly \$750 billion over the 10 years. And if the benefit were to look like the one that is offered to military retirees, it would cost \$1 trillion over the 10 years. So you can see that the amount of money that has been reserved in the budget to provide a Medicare prescription drug benefit is modest in comparison to what Federal employees receive, compared to what private sector employees receive, compared to what military retirees receive.

In addition, we know this task is becoming increasingly difficult. Over the last few days, the administration and the Congressional Budget Office have released new budget numbers that show that the available surplus, not counting the Medicare and Social Secu-

rity Trust Funds, has disappeared. Over the next 5 years the surpluses outside of the trust funds are gone. Even more ominous, we now see that over the next 10 years the administration, this current administration, will be using \$500 billion of Medicare and Social Security Trust Fund money to pay for other Government programs, and this is at a time the administration is forecasting strong economic growth. That is a very serious matter. The use of \$500 billion of Medicare and Social Security Trust Fund money to pay for other programs obviously means the money will not be used to pay down the debt, will not be used for benefits, will not be used to refund the liability that we all know is coming, and means much more difficult choices in the next decade. It means deeper benefit cuts, bigger tax increases or more national debt. That is the harsh reality of what the administration's budget miscalculations mean to the future of our country.

As I have indicated, all of this makes these considerations more difficult because the surpluses have evaporated outside of the trust funds of Medicare and Social Security, and yet we see that the amount of money that is in the budget for a prescription drug benefit will provide a very modest plan.

As this debate continues, I would like to provide a set of principles that will guide my actions:

Principle one, a Medicare drug benefit must be universally available to all Medicare beneficiaries regardless of income and regardless of age and regardless of where they live. This is critically important to a rural State like ours. Like all other Medicare services, this benefit must be available to all seniors in every region of the country.

Principle No. 2, a Medicare drug benefit must be voluntary in nature. As I stated earlier, seniors must be able to choose whether they want to enroll in a drug benefit just like they do today when signing up for Medicare Part B. If a senior citizen is satisfied with their current drug coverage, they should not have to change it, they should be able to keep it, and they should be able to choose whether or not they pay a premium for a prescription drug benefit.

Now, no doubt you have seen these ads that have been running in North Dakota suggesting that I am going to raid people's Social Security money to pay for a prescription drug benefit. Nothing could be further from the truth. There is no raid. There is no taking of anybody's Social Security money, not one dime. This is a question, in the plan that I support, left up to senior citizens themselves. Do they believe it is in their interest to pay a premium to get a prescription drug benefit? That is what the plan I am supporting is all about. It is voluntary. They left that out of the ad; you perhaps noticed they made no mention of the fact that it is voluntary. It is up to the senior to decide if it is in their interest to pay a premium to get a prescription drug benefit.

Let me just say that it is not just my assertion about the plan that I have endorsed. Three major national organizations have now written to me about the ads running in North Dakota, and let me just read quickly from these letters.

First, from Families USA, Ron Pollock, their executive director, this is what they said about the ad running in North Dakota: "During the two decades our organization has followed and analyzed

health care policy in the United States, this advertisement ranks at or near the top in terms of its misleading and factually inaccurate content. It appears to be an intentional distortion of the pending legislation and your role in promoting much needed prescription drug coverage for America's seniors."

A second letter from AARP. They say, in part, "It is a surprise that, instead of working in a bipartisan way to enact a meaningful prescription drug benefit, an organization like the American Conservative Union would rather spread misinformation and distort the truth through their current television ad which is just plain wrong."

And third, from the Committee to Preserve Social Security and Medicare, this letter addressed to me, "The ad, as described in the National Journal, represents one of the worst examples of political scare tactics targeting seniors to date. This ad is blatantly inaccurate and we urge broadcasters to pull this irresponsible ad immediately."

So major national organizations have weighed in. They have said this ad being run in North Dakota attacking me is inaccurate, it is misleading, they have left out the most important fact, that the prescription drug benefit program that I have endorsed is entirely voluntary. It is up to seniors to decide if they want to pay a premium to get a prescription drug benefit. It is their choice; nothing is forced on them at all. So I think it is important to clear the air with respect to that question.

The principle No. 3 is that a drug benefit must be comprehensive. Every senior who chooses to sign up for a benefit should receive significant help with out-of-pocket costs and full coverage of high drug costs. In other words, when you get to a certain point of drug costs, you really need full assistance from Medicare above that level. For example, I have supported a proposal introduced by Senator Graham of Florida which would cover 50 percent of the cost of each prescription and would provide catastrophic loss coverage over \$4,000; in other words, full coverage after you had \$4,000 of drug costs.

In addition to being comprehensive, a drug benefit must also be affordable. That is principle No. 4. For seniors with lower incomes, a drug benefit should include extra assistance for the cost of medications. In general, I believe all beneficiaries should be asked to pay monthly premiums and coinsurance payments that are reasonable. It is important that people pay something for these benefits. The Federal Government cannot afford to pay for this entirely out of the Federal budget. It simply cannot afford it, and we could not provide a benefit that would truly meet the needs of the Nation's seniors with the money that is available. So it is important that if people are going to be given a benefit that they pay some part of its cost. That simply is fair and it is the only way to have a drug benefit that is meaningful. But as I have indicated, it also should be voluntary. People should be able to choose whether or not they sign up for the benefit or not.

Finally, standard No. 5, we must ensure a drug benefit that is accessible in all areas of the country. In particular, I strongly believe that drug proposals should include measures to ensure that beneficiaries have reliable access to their local pharmacies, and

this is one reason we have got a representative of North Dakota pharmacies here because pharmacies play a very important part in the delivery mechanism for prescription drugs. The pharmacist is often the one who is in most direct contact with the patient and the family, the person who is using the prescription drugs, and they are critically important to making certain that there is not harmful drug interaction, that there are not inadvertent drug overdoses. We know that the misuse of prescription drugs causes many hospital admissions, and the best front-line defense we have is the active involvement of that local pharmacist.

These are the standards and principles that I will continue to follow as we move forward with a prescription drug debate.

I would like to turn now to our witnesses to hear both the North Dakota and the national perspective on the issue of prescription drug coverage. I am particularly interested in discussing the drug coverage proposals under consideration and how they would impact our State, North Dakota.

We have with us today to discuss these issues, first of all, Tricia Neuman, the Vice President and Director of the Medicare Policy Project at the Kaiser Family Foundation. She has a sterling reputation and she will provide a broad overview of prescription drug coverage across the country and highlight the Medicare drug proposals under consideration.

Thank you, Dr. Neuman, very much for traveling to our State to be with us today. Please proceed with your testimony and then we will go to our other witnesses that include Carol Hertz, the State President of AARP in North Dakota; Dr. Galen Jordre, the Executive Vice President of the North Dakota Pharmaceutical Association; and Connie McBride, the State Project Director for Green Thumb.

Again, I want to welcome all of our witnesses and all of those who are in the audience, but a special thanks to Tricia Neuman for traveling to North Dakota to be with us today.

**STATEMENT OF PATRICIA NEUMAN, VICE PRESIDENT AND DIRECTOR, MEDICARE POLICY PROJECT, THE HENRY J. KAISER FAMILY FOUNDATION**

Ms. NEUMAN. Well, thank you, Senator Conrad. I am so pleased to be here today to testify before the committee on this critical issue of Medicare prescription drugs. It is my first trip to North Dakota, so I was especially excited to come to be here.

Senator Conrad, as a key member of the Senate Finance Committee and as Chair of the Senate Budget Committee, you have been a major force behind this current debate and ongoing efforts to provide prescription drug coverage to our Nation's seniors. You bring common sense and leadership to the debate in D.C., and it is a real privilege to be here and an honor to testify before you and the committee on this issue.

Medicare today is one of the Nation's most successful and popular Federal programs. Yet, as you all well know, it faces many challenges from the future. From the perspective of beneficiaries, however, no problem is more pressing than the need for improved prescription drug coverage. This issue is especially important given

the significant health needs and the limited financial resources of most seniors.

Nearly two-thirds of the Medicare population live with two or more chronic conditions, about a third say their health is fair or poor, and about a quarter have mental difficulties. Many beneficiaries live on modest incomes; 40 percent have an income below twice the poverty level, that is about \$16,000. Here in South Dakota, about half of all people on Medicare, half of all seniors, have an income below that level. Most rely on their Social Security checks for the bulk of their income, and, unfortunately, income tends to decline with age just as health problems are increasing, making the issue of prescription drugs increasingly important.

As Senator Conrad said, more than a quarter of the Medicare population, more than 10 million people, lacked drug coverage throughout the entire year of 1998. Unfortunately, that is the last year for which we have national data, and many suppose that the numbers since then have increased. An even larger share had a gap in coverage at some point in the year. About half were without any drug coverage at some point in the year 1998.

Seniors living in rural areas, those ages 85 and older, and those with income that puts them just above the Federal poverty level are especially prone to being without drug coverage. Highlighting the challenges faced here in North Dakota—a State with a high share of rural beneficiaries, of course, a relatively large share of seniors with low incomes, and the highest share among all States of beneficiaries ages 85 and older—the lack of drug coverage has a direct, measurable, and adverse impact on seniors. Medicare beneficiaries without coverage fill one-third fewer prescriptions per year than do those with coverage.

Sadly, the stories that were told by Senator Conrad of seniors not filling their prescriptions, skipping days, taking half their doses and not telling their families and their physicians because they are too embarrassed to do so are stories that hold true nationwide. And while they are taking fewer prescriptions, those without coverage are actually spending more for the medications that they do fill. The reason they are spending more for their medications is really two-fold: one, obviously they don't have coverage or insurance to help pay for part of the cost; but, two, they are often paying top dollar, they are paying the full retail price.

To provide an example of what this might mean for someone who is struggling with health problems, we went to an on-line pharmacy and we looked at what an older woman with moderate health problems might pay if she had certain conditions. This was based on a senior who had provided us some testimony. We chose somebody who had mild depression, osteoporosis, high cholesterol, high blood pressure, and thyroid imbalance. These are conditions that are not terribly uncommon, someone who can live and manage very well but just needs medications to get her through the day.

When we went to the web site and we looked at commonly prescribed medications at the lowest doses available, we found out that such a woman would end up paying more than \$2,500 over this year for her medications. Now, the mean income for a woman 65 and older in our country is about \$16,000. Given that mean income, you can see that she would be paying a sizable share of her

income, if she could actually afford to fill the medications prescribed by her doctor.

The majority of beneficiaries today do rely on a patchwork of supplemental sources to help with their drug costs. In some States, although not here in North Dakota, there are also some State pharmacy assistance programs that try to help fill the gaps for some low-income seniors.

But supplemental coverage is eroding across all sources, however, leaving many to speculate that the numbers without drug coverage or the numbers with coverage that isn't too good, fairly skimpy coverage, will grow in the future and has probably increased since 1998. This erosion is driven in large part by the rapid increase in drug expenditures that has occurred and is expected to occur in the future. In the year 2000, spending on prescription drugs increased by about 17 percent. This compares with 16 percent growth in hospital services and a 7 percent growth in physician services. So you can see why prescription drugs get a lot of attention and why it is putting a lot of pressure on all payers to curtail their spending for this important benefit. This growth is likely to not only put pressure on payers but also, of course, on seniors and is likely to expose too many seniors to high out-of-pocket costs and to preventable health risks associated with not filling their needed prescriptions.

Turning to the current debate in Washington and, of course, nationwide, Medicare prescription drugs was clearly an issue in the last Presidential election and has received considerable attention in the 107th Congress. While a number of health bills have been introduced in this current Congress, these proposals generally fall into two general approaches.

The first general approach would entitle Medicare beneficiaries to prescription drugs provided through a new, voluntary Part D of Medicare. Beneficiaries would pay a monthly Part D premium just as they pay the Part B premium today. Medicare would basically cover the cost of prescription drugs in the same manner it does for hospital and physician services. Medicare would contract with private entities which are called pharmacy benefit managers that tend to manage drug benefits for large employers and large insurers today in order to administer the program. So it would not be directly administered by the Federal Government. This is the general approach that was proposed by Senator Daschle and Senator Graham, and it is the proposal that I think Senator Conrad referred to.

The second general approach would allow Medicare beneficiaries to obtain prescription drug coverage through subsidized private insurance plans or Medicare Plus Choice plans, whichever are available in their area. Under this model, seniors would choose among competing private prescription drug plans in their area based on the benefits and premiums offered. This is the general approach that was passed by the House of Representatives last year and has been put forth more recently by Senator Breaux and Senator Frist.

Just last month President Bush also proposed a plan; this would be a new prescription drug discount card program that would function as an interim measure before a comprehensive solution is enacted. Under this proposal the Federal Government would endorse

and promote discount card sponsors who choose to participate in the discount card program and meet certain qualifications.

Now, these approaches clearly reflect a different philosophical perspective particularly in the area of the role of private plans, but they are noteworthy for the points of agreement. Most significantly, there does now appear to be broad consensus on the need to help all Medicare beneficiaries who lack drug coverage and provide additional protections to those with modest incomes and extremely high expenses. In addition, these proposals together suggest a consensus on the need to allow beneficiaries to participate in the program on a voluntary basis and to avoid establishing a system in which the Government administers prices directly. These are really lessons learned from the ill-fated Medicare Catastrophic Coverage Act which was passed in 1998 and repealed just a year later.

But despite these areas of common ground, there remain a number of policy challenges that have yet to be resolved and that could have significant implications for seniors and for program costs. Clearly one of the biggest challenges is designing a program that continues to reach the largest number of beneficiaries without drug coverage, including those who live in rural areas, those with low and modest incomes, and those who are frail or among the oldest-old. This means developing an approach that can adapt to highly variable local markets and health care delivery systems, and that is available throughout all parts of the country.

The recent withdrawal of many Medicare HMOs, which disproportionately affected non-urban areas, underscores the need to provide stable and reliable drug coverage that can withstand the swings of private plans' participation decisions and that will work for beneficiaries no matter where they live or what plans are offered in their areas.

A second factor in designing a system to help those without drug coverage is making the program affordable which, from the beneficiary perspective, often boils down to the monthly premium. Decisions made about premiums and premium subsidies will have a significant impact on the number of beneficiaries who will choose to participate in the program and who gain coverage.

Recent focus groups conducted by Public Opinion Strategies and Peter Hart Research Associates for the Kaiser Family Foundation found that study participants were surprised by the relatively high premiums seniors would be asked to pay for drug coverage under many of the leading proposals. This "sticker shock" reaction, documented in the report, could ultimately affect both public support for the new program, as well as the number of seniors who choose to sign up.

Now, in addition to making a program accessible and affordable, participation is also influenced by how easy the program is to negotiate. Medicare is popular among seniors today in part because it is relatively easy to use. The easier it is for seniors to sign up, pay their premiums, and stay covered, the more likely they are to do so. Thinking about the growing number of beneficiaries who will be among the oldest-old, those with diseases such as Alzheimer's and other frailties and disabilities, a new program really needs to be user-friendly if it is going to work.

A second broad challenge that faces policymakers is the decision concerning the benefit itself, and there are significant differences across the leading proposals in terms of how much prescription drug costs will be covered under the plan. Differences regarding deductibles, cost sharing, and benefit levels will also have significant implications for the number of people who get help, the level of help they get, and, ultimately, program spending.

Cost controls are another major challenge in the design of a new program. Policymakers face difficult decisions about how to control the costs of a new drug benefit without compromising pharmaceutical innovation. Many proposals would delegate cost control decisions to private entities. But, however they delegate these decisions, the ability of private entities to control costs will likely hinge on how much authority they are given by the Federal Government to do the kind of cost control strategies that they currently use in the private sector.

In addition to the policy decisions that are directly related to prescription drug coverage, leading proposals also differ on the broader question of whether a new drug benefit should be linked to more fundamental and comprehensive changes in the Medicare program. A key question is whether progress can be made on this pressing issue of prescription drugs in the absence of consensus on broader strategies for Medicare reform.

Medicare does enjoy broad public support across all age groups and has high levels of satisfaction among the Medicare population. Yet, Medicare's lack of drug coverage has clearly emerged as a front-burner issue for seniors and for policymakers. In today's environment, Medicare beneficiaries—particularly those with multiple chronic conditions and limited incomes—can ill afford to be without prescription drug coverage.

There now appears to be broad bipartisan consensus on the need to improve prescription drug coverage and public support for action. Earlier in the year, Congress set aside \$300 billion in the budget resolution to fund a drug benefit and for other Medicare reforms. Now, however, changes in the economy and the declining surplus projection could jeopardize passage of this critically needed and costly addition to the Medicare program. Due to these fiscal returns, alternative strategies—potentially involving difficult trade-offs with other national priorities—may be needed to finance meaningful drug coverage for the Nation's aging population. But in the absence of congressional action, the well-documented hardships faced by seniors lacking adequate drug coverage will inevitably intensify and worsen in the years to come.

Thank you, Senator Conrad.

[The prepared statement of Ms. Neuman follows:]

Chairman CONRAD. Thank you, Dr. Neuman. Thank you very much for your testimony. Thank you very much for traveling to North Dakota to share your expertise with us.

We thought what we would do this morning is hear from all of the witnesses and then open it up to questions and a broader discussion and include people who are here in the audience as well. So that is how we will proceed, and we will go next to Carol Hertz, who is the head of the American Association of Retired Persons here in North Dakota.

Carol, it is wonderful of you to be here. Why don't you proceed with your testimony.

**STATEMENT OF CAROL HERTZ, STATE PRESIDENT, AARP  
NORTH DAKOTA**

Ms. HERTZ. Thank you for inviting me. In the 36 years since the Medicare program began, prescription drugs have become essential in the treatment and prevention of disease. The lack of prescription drug coverage in Medicare has become one of the program's biggest gaps, leaving beneficiaries vulnerable to substantial costs. Beneficiaries must either obtain coverage from some other public or private source or pay for their drug costs out-of-pocket. Beneficiaries in rural areas are particularly vulnerable to the high cost of prescription drugs. The one-quarter of beneficiaries age 65 and older who live in rural areas—such as North Dakota—have higher out-of-pocket prescription drug spending than their urban counterparts.

A significant portion of the Medicare population has some type of drug coverage from one or more sources, such as retiree health plans, Medigap, Medicare Plus Choice, Medicaid, or State assistance programs. However, these existing sources of drug coverage for older Americans are inadequate and undependable.

For instance, the number of employers offering a retiree health coverage for future Medicare-eligible retirees has seriously declined. Nationally, in the 1980's, an estimated 60 to 70 percent of large employers offered retiree health benefits. By 1993 that number had dropped to 40 percent, and in 2000 it was only 24 percent. North Dakota ranks last among the States in the percentage of current Medicare-eligible beneficiaries with employer-sponsored retiree health care coverage.

Private Medigap plans provide prescription drug coverage in only three of the ten plans. These plans are expensive and place limits on the benefit. North Dakota ranks first among the States in the percentage of Medicare beneficiaries who purchase this expensive and limited private supplemental coverage. Relative to a Medicare beneficiary's income, a Medigap policy with prescription drug coverage is extremely high and the premiums are rising. In North Dakota, the cost of these policies range from \$1,400 to almost \$5,000 a year.

Another source of prescription drug coverage for beneficiaries are the Medicare HMOs or Medicare Plus Choice plans. However, across the Nation, Medicare Plus Choice plans are dropping out of Medicare or increasing the premiums or reducing the benefits. At this time there are no Medicare Plus Choice options available in North Dakota.

Finally, we should note that there is no State drug assistance available to the citizens of North Dakota. Assistance is available through Medicaid; however, many older North Dakotans do not qualify or are adamant about not accepting this or any other type of public assistance.

Because coverage is too costly, or not available at all, only two-thirds of all Medicare beneficiaries have any prescription drug coverage, and this figure obscures the fact that only 58 percent of all beneficiaries have prescription drug coverage that covers them for

the entire year. Just over half of rural beneficiaries have some type of prescription drug coverage, compared to about 70 percent for urban beneficiaries.

Prescription drug coverage in Medicare would improve quality of care, reduce unnecessary hospitalization, and offer the potential to reduce the risk of drug interaction. That is why AARP is committed to creating a Medicare prescription drug benefit. In particular, AARP believes that:

Medicare's benefit package must be modernized to keep up with advances in medicine.

A Medicare prescription drug benefit must be available to all Medicare beneficiaries.

The benefit needs to be affordable to assure a sufficiently large risk pool. This means that healthy and low-cost beneficiaries, in addition to those who already have high drug costs, must choose to enroll in the benefit.

Prescription drug coverage should be set in law as part of Medicare's defined benefit package. It is critical that beneficiaries understand what is included in their benefit and that they have the option to purchase dependable and stable Medicare prescription and drug coverage.

The benefit should be voluntary so that beneficiaries are able to keep the coverage that they currently have, if they choose to do so.

The benefit should provide protection against catastrophic expense.

The benefit must provide additional subsidies for low-income beneficiaries to protect them from unaffordable costs and assure that they have access to the benefit.

The benefit must be financed in a fiscally responsible manner that is both adequate and stable.

A new prescription drug benefit should also be a part of a strong and more effective Medicare program.

Senator Conrad, we commend you for holding this meeting today to draw attention to the need for Medicare prescription drug coverage. Adding meaningful prescription drug coverage to Medicare—including the original fee-for-service Medicare program, which is the source of coverage for the vast majority of rural beneficiaries—would provide much needed assistance to the beneficiaries in North Dakota.

AARP stands ready to work with you and your colleagues to enact a meaningful benefit.

[The prepared statement of Ms. Hertz follows:]

Chairman CONRAD. Thank you very much, Carol.

You know, one thing I think I should mention is we have talked a lot about what the national numbers are for seniors who don't have prescription drug coverage, and we have used the statistic that nationally it is about 27 percent have no coverage.

I think it is very important to know that in North Dakota the percentage is much higher, there is no reliable source of an estimate in North Dakota, but we believe that it must be at least 50 percent of seniors have no prescription drug coverage in our State. The reasons we believe that is true is because, as was pointed out in Carol's testimony, we are dead last in employer-provided coverage, No. 1; No. 2, there are no Medicare Plus Choice plans in

North Dakota, there are none, and those are two of the major sources of prescription drug coverage for most people across the country, as my chart showed.

I think if we put that up you can see nationally 33 percent is employer-sponsored and Medicare HMO is 15 percent; and we have got no Medicare HMO in North Dakota, and we are dead last in employer-sponsored. So I think you can see, in addition to that, we have no State assistance program in North Dakota. You put all those facts together, I think it leads you to a conclusion that more than 50 percent of North Dakota's seniors have no prescription drug coverage. And that is why it is such an important issue in North Dakota and why it is so critically important we find a way to change the Medicare program to provide a prescription drug benefit.

Let me say one other thing, if I can, about Medicare, because people have asked me, gee, when they started Medicare, why didn't they include a prescription drug benefit. And if we think back we just, I think, all understand the pattern and practice of medicine has changed dramatically. Senator Moynihan used to make the point in a very graphic way. He used to hold up the Merck Manual. The Merck Manual has all of the drugs that can be prescribed by doctors, and the Merck Manual in 1965, when Medicare began, was a very slim volume.

If you look at the Merck Manual today, it is a very thick book because the prescriptions that are available to us have been dramatically increased and it has changed the way medicine is practiced as well.

If you just think of ulcers, stomach ulcers, surgery for stomach ulcers in this country have been reduced by two-thirds because of the pills, the medications that we have available to us today. You know you have that little purple pill, Prilosec—I took mine this morning—that really works. And I tell you, I didn't need them before I went to Washington. So, you know, this has transformed people's lives and transformed them for the better, but we also know there is substantial cost.

I had a woman that I know, I was having dinner with her family several months ago, and they told me that her prescription drug cost a month was over \$20,000. She had a rare form of cancer that required her to have, every day, very expensive drugs provided to her to save her life. Can you imagine that, \$20,000 a month? Now, that would break most families very quickly, and yet none of us knows when we are next. None of us knows when a loved one has the kind of illness that requires that kind of care. None of us knows when it might be us. So this is a reason why I think it is very important that we consider a change.

Next, we are going to go to Galen Jordre, who has been very kind to take time out of his day to be here representing our pharmacists across the State. They are an important part of this puzzle on how we solve the challenges that are before us.

Galen, thank you so much for being here and why don't you proceed with your testimony as well.

**STATEMENT OF GALEN JORDRE, EXECUTIVE VICE PRESIDENT, NORTH DAKOTA PHARMACEUTICAL ASSOCIATION**

Mr. JORDRE. Well, thank you, Senator Conrad, for the opportunity for us to come here and talk about this very important issue, and as you have pointed out, our pharmacists are those people who see this from two sides. We are the folks who work on the front lines, deal with patients every day, answer the questions about why drug prices are so high, why certain things are not covered by Medicare, and why this is not happening; and our people really do work with the patients a lot trying to provide the best therapy, the most economical therapy. And I think when you were talking about that figure of 27 percent uninsured in North Dakota, I think our people can just anecdotally tell you that the figure for our senior citizens is much, much higher. We have very little coverage for our senior citizens when they walk through the pharmacy door.

Our association represents the 690 pharmacists in the State, and we have 167 community retail pharmacies and 57 institutional pharmacies in 71 different communities. It is important to note, when we talk about this type of thing, that in 47 communities we have one retail pharmacy only, and often in those situations that pharmacist is also the consultant to the nursing home, the consultant to the hospital, and is really one provider in that area to provide services.

In my current position, I am also the president of the National Council of State Pharmacy Association Executives, a group of associations that represent over 55,000 pharmacists, and I can assure you that the views that I have here today are universally held among our pharmacy associations around the country.

I think I had heard earlier one figure as well that approximately 25 percent of senior citizens live in rural areas, and I have read in a report that really in North Dakota that figure is much, much higher. The number I had was 67 percent. And so the design of a Medicare prescription drug benefit will have great impact on our senior citizens and the ability of our pharmacists to serve them.

We belong to a group of organizations known as the "Pharmacy Benefits All" Coalition that recommends to policymakers that when you are looking at this particular issue, that you design a pharmacy benefit, not just a prescription drug benefit. We can't think of prescription drugs as just another commodity. Because of the high incidence of adverse drug reactions, interactions, and problems that people face, it is very, very important that senior citizens have access to their pharmacists and pharmacy and be able to receive that important medication management that pharmacists can provide. And one of our things—and I will be quite up front. I am self-serving, you know. I represent the pharmacists and the pharmacies, and I think we need plans that will adequately pay pharmacists for their services. We see what is happening with our hospitals here in the State, and we don't want to see that same type of thing happening with a Medicare drug benefit.

Approximately 75 percent of the adults take at least three medicines and over 33 percent take eight or more, and we feel it is very important that there be provisions for monitoring and education.

Chairman CONRAD. Could you just repeat that? Because I just went through the final illness of my father-in-law, and the statistic

you just gave I think is very important for people to know. Would you just repeat that about the number of medications people are taking?

Mr. JORDRE. Well—and this was a survey just completed by the American Society of Health System Pharmacists—75 percent of the older population take at least three medications and about 33 percent take eight or more. Now, this would include some over-the-counter medications, supplements of that type, but all of these things can contribute to interactions and adverse reactions for the pharmacists. So we feel that inclusion of pharmacist services will provide value to the medications they receive and lower the rate of adverse drug reactions and inappropriate medication use that drives up our health care costs.

Chairman CONRAD. Maybe I can just stop you on that point, too. I remember during the great health care debates, we were given a statistic—and, Dr. Neuman, maybe you know this—that something like one in four or one in five hospital admissions was because of drug interactions or inappropriate use of prescription drugs. Do you know if that is an accurate statistic?

Ms. NEUMAN. That sounds about right.

Chairman CONRAD. So a very high number of hospital admissions are caused by drug interactions because so many people, especially more elderly senior citizens, are taking many different prescription drugs, and so there is a potential for interaction that causes an adverse reaction. And I am glad you use that statistic because I think it helps underscore the importance of what we are talking about.

Mr. JORDRE. Going into some of the plan designs, the one area that causes great concern for us are those that advocate that pharmacy benefit managers, or PBMs, play an active role in delivering or designing the benefit. We are concerned that some of the cost management techniques used by PBMs, as well as the limits that they place on access to medications and pharmacy services, could really impede the quality of care. We have seen time and time again here in North Dakota where the PBMs really have no regard for local access to pharmacies and really give pharmacies little opportunity to negotiate participation in contracts. We see contracts that come out and say take it or leave it. If you don't participate, the people can go 50 miles down the road to the next pharmacy.

And one of the proposals I saw talked about having a requirement that 90 percent of the people be within 10 miles of a pharmacy. Well, that is not a problem—and that doesn't say in each State, that is applied across the country, and in North Dakota that can rule out almost all of our rural areas because we have such a small population and they fall into the 10 percent and can be disregarded, and this is something that we have real concern about.

So we advocate that the PBMs be limited to their administrative functions which they can do very well in processing prescription claims, handling that type of thing, but that they not be policymakers because as PBMs they also benefit through some of their own relationships in receiving drug rebates, owning their own mail-order pharmacies, and diverting patients to those sources.

President Bush recently proposed a medication or a drug discount program that does not meet the core principles advanced by

the "Pharmacy Benefits All" Coalition. As a result, we have joined many other pharmacy organizations in opposition, and two of our major pharmacy organizations have taken the Bush administration to court to challenge the legality of this program. We feel that this discount card program offers a false promise to our senior citizens, that there are unsubstantiated discounts that are provided.

We have seen one contract come out to our pharmacies in the State for a proposed pharmacy participation in that particular program, and nowhere in that particular contract does it point out how any rebates would get to the pharmacies so the pharmacies could pass them on to the patients who are paying. Under this program the patients pay all their dollars up front, and there is no way, within that particular contract, that any of this money would pass on to the pharmacy so it could get to the patient and reduce the patient cost.

We see the primary thing of a discount card program are the discounts are going to be coming from the pharmacies, which naturally concerns us a lot, and we feel that it can have a very definite effect on the viability of our pharmacies in the State.

Another thing is that many of our pharmacies provide services to long-term care facilities, nursing homes, and in these nursing homes they use unit dose systems and other specialized types of packaging and things—

Chairman CONRAD. What does that mean, Galen?

Mr. JORDRE. What that means, the unit dose system is a system where the drug is packaged in a way to promote efficiency for the nurses when they administer the medications. They don't have to pour it out of a bottle into a medication cup; it is already prepared. So it greatly increases the efficiency and accuracy of providing that type of thing.

Well, if the discount card program came into being and people were getting medications from many different places, those facilities are not going to provide that type of packaging and it could lead to chaos within our nursing home facilities.

So even as a short-term solution, we do not see the discount card proposal as a viable alternative, and we recommend to Congress that you do what you can to intervene there.

Pharmacists believe that comprehensive Medicare reform and establishment of a Medicare prescription benefit is bound to take place sometime. We are not sure when, but we think it will. If there are interim approaches, one thing that we have supported in the past would be something such as introduced last year in the 106th Congress as H.R. 5151, which was kind of a State-based/need-based program for an interim basis.

The other thing that we think would provide some value is for pharmacists to be recognized as Medicare providers for services on medication management services. Senator Johnson from South Dakota has introduced a bill that would provide for this. We feel that an outpatient pharmacy benefit for seniors is one of the single and most substantial important additions to the Medicare program, and we must assure that any benefit be structured so that the Medicare beneficiaries and pharmacy providers will be served. Otherwise, it will fail and do tremendous harm in the process, and so we all need our best efforts to work on this together to achieve that goal.

And if I could, I have a couple of little personal stories here.

Chairman CONRAD. Good.

Mr. JORDRE. I am behind a desk quite a bit so I don't get out, but my wife is a pharmacist and works in a pharmacy, and I talked with her and she had—the pharmacy had some patients call me and we had one couple who I had talked to where the wife uses five different medications and two inhalers for lung problems. Her husband has had open heart surgery and uses eight different medications plus inhalers and eye drops for glaucoma. He is a retired janitor. They use—they are efficient, they use generic drugs wherever possible, and the wife said whenever they go to the doctor, they ask for samples and she said truly without samples they probably would not be able to get by. They receive two Social Security checks; one they live on, the other they use to buy their medicine.

I had one person who was a retired small business owner in a small town and has diabetes and high cholesterol. He skips his cholesterol medication because it costs him \$100 a month that he doesn't have. He goes spare on his oral diabetes medication, he takes his insulin regularly. Now, recently he was diagnosed with cancer, and he started IV chemotherapy treatment. But it is interesting to note that Medicare will pay for the IV chemotherapy treatment but if he should go on to an oral treatment, then that is not covered.

In the same way I get—this is a personal frustration of mine. I go home and I see—on television I see ads that talk about people using inhalers. Medicare doesn't cover people who have these inhalers, but for people who use the respirator, the ventilation machines, then, because you can mix a drug and add it to that machine because it is a piece of equipment under Medicare, then you can have drugs covered. And so you have a system where you have somebody down in Florida doing ads in North Dakota advertising switch, get your doctor to switch you from your inhaler to these machines and we will supply—well, it costs, it is going to cost Medicare two or three or four times as much to do that, but it is one of the inconsistencies of the system and it is so frustrating, so frustrating for us to work with.

The other thing is I am involved with a task force here in Bismarck—and some of those people are here in the audience—where we are trying to develop some ways or to advise people about indigent programs that are available, ways that people can get medications; and it is a very complex type of thing but it just demonstrates the patchwork system that we are using right now to ensure that people are getting their medications and I think we have—in this country we have to have some better answers.

[The prepared statement of Mr. Jordre follows:]

Chairman CONRAD. Thank you so much, Galen, that was real powerful testimony and I am glad you could be here today.

Next, we are going to hear from Connie McBride, the State Project Director for Green Thumb, who will talk about her experiences with her clients who are, in many cases, exactly the group that we are talking about.

Welcome, Connie. Please proceed.

**STATEMENT OF CONNIE McBRIDE, NORTH DAKOTA PROJECT  
DIRECTOR, GREEN THUMB, INC.-EXPERIENCE WORKS!**

Ms. McBRIDE. We are with Green Thumb-Experience Works!, and it is a nonprofit organization, and our mission is to put the experience of older individuals and others to work in a way that strengthens families, communities, and our Nation.

One of the biggest things—and perhaps some of this anecdotal information I give you will help—is that we are advocates, essentially, for the older population and we are very concerned that with people living longer and with us having interest in economic development and all, we really need to tap the resources and not send a mixed message to our older population, which is, you know, take care of yourself, try to stay healthy and live longer. But then the other side of it is we basically have a policy that says don't get sick and don't get old. So that is another issue.

The other part of it is to have people to harness the powers that we have of that older generation of working, and they have to be healthy, and this is the biggest problem we run up against is that many of them can't get medications so that they can work. Medications, as we have talked about, have been—with that piece in place, then we can move forward and do these wonderful things to help use our older, longer-living people and employ them in creative ways, whether it is involvement with youth, intergenerational, and so forth.

It is no secret that North Dakota, like our Nation as a whole, has a rapidly increasing aging population. Each day people who would be considered past the typical retirement age, they come to us searching for work and their reasons are usually two-fold—we have an assessment form that we do with everyone that comes in, and one of the questions we ask them is why do they want to work. And invariably they will tell us they want to work, they need to work because they have to pay for their out-of-pocket prescription drug costs. So the other purpose is finding meaning and purpose in life and they just want to contribute, but that second one is by far the most prevalent. Many of the older citizens cannot even maintain a modest life-style without some additional earned income.

In working with seniors, we often help them get the updated training they need to be employable and help find that employment, but in most cases that is not enough. We have to help and obtain the resources they need to stay employable. Above all, this means helping many obtain medications that enable them to function. Our personnel regularly refer those in need to existing sources of help which might be able to include—and that is everything from the drug samples that Galen mentioned to some of the other options that might be available through their health care providers, especially programs that are operated by the pharmaceutical companies, your indigent programs and such. Some veterans get help through the VA, but all too many who come to us in dire straits fall through the cracks.

I would like to share a firsthand account of one individual who faces the uphill battle to afford the necessary prescription drugs. His name is Doug Fredrickson. He is 60 years old, and he lives in Lisbon, North Dakota. Doug first came to us desperately needing work, probably closer to a year and a half ago. He had been put

on disability. He could not meet his expenses, and without work he was not going to be able to take the medications he needed to survive. We were able to provide a training experience for Doug using his skills to help other older individuals with employment and training needs. So, in other words, he went out and worked with people in his own age group helping them. Doug, under our temporary training assignment, is only able to work on a schedule of about 20 hours a week, and that also kind of correlates with his health concerns. Doug wants to be involved, he wants to contribute. Despite the initiative that Doug takes in working and trying to make ends meet, it is a constant struggle.

For example, because he is working and showing initiative through his affiliation with Green Thumb, he actually lost certain benefits that he was receiving. Then, when we gave him a raise for his good performance, he was forced to drop some hours because the earnings negatively affected his disability eligibility. This is one example, of many, of this “no forward progress” treadmill that some of these folks get into. It is truly one of the “darned if you do, darned if you don’t” situations.

So I asked Doug to put in his own words his story and I would like to share that with you. Doug says: “I’m a 60-year-old male living in southeast North Dakota. I survive on Social Security Disability (for degenerative heart disease and Type 2 diabetes) and my part-time job.”

“Prescriptions in the United States are so high that to try to exist I go to Canada to get most of them. My maintenance medicines in the United States would run me about \$350 and some meds in Canada run about \$140 a month. This does not include a medicine that I can’t get up in Canada because it is not available there. Even adding on the cost of going to Canada, which generally comes out to about \$50 every 3 months, does not bring them anywhere close to the same price.”

“I live about 250 miles from Canada and that makes this a 500-mile round trip just to get my prescriptions. Many people can’t make that trip due to cost, distance, or health considerations and, therefore, they have the choice of not taking their medicines or not eating. To me, it is more cost-effective and humane to help people get their prescriptions and stay well to be a productive part of society than it is to put them on Medicaid and have the taxpayers be stuck for high hospital or nursing home bills.”

“It seems to me that the United States is more willing to pay double or triple next month for long-term care than to pay a smaller amount now to keep people productive and healthy and to enable them to be taxpayers and consumers of other products for many years. Financially and realistically it makes sense to help people instead of punishing them for having ailments.”

“Economically the country and the attitude of the people would take a big upswing if these wrongs were corrected. I also believe it would be a boon to all politicians and their constituents to be able to say, ‘We helped correct this wrong.’” And that was respectfully submitted by Doug Fredrickson.

I have learned that Doug is adjusting his own medications to manage the high costs he faces. I saw him open his medicines and when he showed them to me, they are halved, as some of you men-

tioned. You might be surprised at how many people are scrimping on food, don't have money to do things with grandchildren, or just enjoy some of the simple pleasures that some take for granted, and we see this on a daily basis at Green Thumb. Their lives revolve around figuring out some way to pay for their prescriptions just to keep going. And often—and somebody hit on this before—these are very proud people, they aren't going to come forward, they don't come forward, and what we do is basically we draw it out and establish rapport and friendship with them and then they suddenly give us hints and we start finding out, as they pour out their stories, just how they don't want to be a burden to their kids, they don't want to complain, and they don't want to be on public assistance.

Several over the past months actually told us this—and I find this just heartbreaking—that before they had come to us and they got the assistance—and we go back to the education element that you have mentioned, which is we are able to maybe say, you know, why don't you talk to someone or get some samples and see what they can do or talk to the physician and sometimes that does help. They said that without that help, some of them actually told us that they were giving up, they didn't want to tell their kids about it, and they were going to commit suicide, which is, you know, again a really hard thing for someone. They don't believe, a lot of them don't believe that but we have that. So we have a lot of Klee-nex boxes in our office. It is very sad, and we have days we have to look at the success stories to keep us from kind of falling into a real funk.

You know, for us it is hard because, again, this is our older generation, these are people who sacrificed hard for us, and it is a horrible mind-set for people who should be in the golden years of their lives.

Economics mandate that many people work in what might be considered these "retirement years." By far, the most common denominator—and there are others, again—is the pressing need to pay for prescription drugs. That is why they come to work. When you add to this the pressure of acquiring current skills training and then finding employers—who some of you have heard me talk about the uphill battle we have with age discrimination and their reluctance to employ an older worker—this gets to be a struggle and an immensely scary life-style for an older person.

From our perspective, finding solutions to the affordable access to prescription drugs is essential. It is essential from a humane standpoint in promoting human dignity and independence. It is essential from a business standpoint because healthier people can work and working people drive our Nation's economic engine. Those are the taxpayers that continue to pay into the system. Research clearly also shows the link between work and better emotional and physical health.

However, back to the start, we can't—people can't get the work or they can't continue to work when they don't have access to the marvels that prescription drugs can make in their lives. Only with this access do they have a fighting chance to contribute and have a reasonable quality of life. Only in solving this problem will we

be able to fully tap the full range of experience and talent in our most precious asset, which is our human resources.

Thank you.

[The prepared statement of Ms. McBride follows:]

Chairman CONRAD. Thank you, Connie.

I want to deal, just for a moment, with the budget aspect of all this, because when I pointed out how much money would be needed over the next 10 years to provide the same kind of drug benefit that is available for Federal employees or when I pointed out when we look at what it would cost to provide the same kind of benefit that we provide military retirees or what kind of benefits employers traditionally provide, we see it is of much more money than is in the budget for a prescription drug benefit, even though \$300 billion is a lot of money. But as I indicated earlier, if we were to have the same benefit that we provide military retirees, that would cost \$1 trillion. If we were going to have the same benefit that private sector employers provide, it would be \$750 billion over the next 10 years. It kind of puts it in context.

Some people have said to me, well, Senator, why don't you put more Federal money into it? Fair question. I know this chart has got an awful lot of numbers on it, but let me just go to the last column. What the Congressional Budget Office just told us this week is we can expect, over the next 10 years, \$3.4 trillion of surplus money over and above expenses. But that is a little misleading because they also point out of that \$3.4 trillion—\$2.5 trillion is from the Social Security Trust Fund. That money is not in surplus; that money has already been committed. Four hundred billion is from the Medicare Security Trust Fund. That money is not in surplus; that money is fully committed. If you subtract those, you have got \$440 billion left over the next 10 years that is available for tax cuts or additional programs.

But wait a minute, that is not really available either because the Congressional Budget Office didn't include the President's request for additional money for national defense. That is \$186 billion, money that is not in the budget that he has asked for for defense.

And wait a minute, it doesn't include budget policies that have been passed by the Congress but not yet enacted because the fiscal year is not over; that is another \$447 billion. Those are expenses that are out there that aren't part of the calculation made by the Congressional Budget Office.

Then you have got the interest costs associated with those things; that is another 157 billion. And what you then see is over the next 10 years you don't have any surplus, you are \$347 billion in the hole. And if you look year by year and see how much is being taken out of the Medicare Security Trust Fund and how much is being taken out of the Social Security Trust Fund in order to cover these other costs, costs in other areas, you see that the Medicare Security Trust Fund is going to be raided for \$286 billion, Social Security is going to be raided to the tune of \$203 billion. So \$489 billion over the next 10 years is going to be coming out of the trust funds of Social Security and Medicare to pay for the other operations in Government.

Now, some people say, So what? What difference does it make? The difference it makes is the baby boomers are going to start to

retire in 11 years, and you need all of the money that was supposedly going to pay for the bills that are to come from the Medicare and Social Security Trust Fund money. And guess what? If you have taken the money and spent it on something else, you can't spend the same dollar twice. At least that is what Mr. Scabo taught me when I took math here in Bismarck, North Dakota. He said two and two is four. Two and two is not six.

Now, there are some in Washington who want to make people believe two and two is six. They want to tell you you can do everything. You can have a massive tax cut, you can have a big defense buildup, you can protect Social Security and Medicare, you can have maximum paydown of the national debt, you can have more money for education. I am here to tell you I wish that were all true, but it does not add up. When you just sit down and go through the discipline of adding up the spending and the income, what you find out is it doesn't add up, and that is why there is no more money to put in to this than the money that is already in the budget.

Put that principles chart up, if you would. By the way, this is Neleen Eilsinger who is on my staff in Washington who is an expert on health care. She has been one of the staffers who has worked most directly on the question of how do we provide a prescription drug benefit, one that meets these principles, that is universal in coverage so that everybody who wants to belong, who is Medicare eligible, has the chance to belong.

That nobody is excluded, No. 1.

No. 2, that it is voluntary. If people don't want to be part of it, if they don't want to pay a premium to get a prescription drug benefit, they don't have to, it is their choice. They only sign up if they determine it is in their best interest to do so.

Third, that it is comprehensive so that it really means something. It is not just like the drug plan that the President has come out with that has got a discount card, that doesn't deal with the problem. That is not really a program, that is not going to solve the problem or deal with it in any substantial way.

Fourth, it has got to be affordable. And let me just say that I know the grand plan has a premium that is estimated at \$53. I personally believe we need to have a premium that is in the \$30 range. And we have been working with a number of our colleagues to try to come up with a plan that would reduce the premium to the \$32 range, something like that.

Why is that important? I had a reporter ask me yesterday, gee, if all of the information shows that at \$50 a month—and, by the way, the \$50, that is not until the year 2004. I think there is some confusion on that. If it were in place today, it would be substantially less because the costs are going up dramatically. It would probably be a \$40 premium if it were put in place today, but none of these things are designed to go into effect until 2004 or even 2005 because it takes time to put something like this together.

But somebody asked me, well, most people, these studies indicate, would sign up even if the premium is \$50 a month; why is it important to try to reduce it? The reason it is important to try to reduce it is because of Connie McBride's testimony. The fact is about over 40 percent of the seniors in North Dakota who are re-

tired rely solely on their Social Security income. You think about that, 40 percent. More than 40 percent of the people who are retired in North Dakota rely solely on their Social Security income, they don't have any other money. So it is important that the premium be as low as possible so as many of those people can participate as possible.

And it is going to cost something, you know. It is not going to happen that people are just going to be given something and not pay anything. And I know there are some people who would like to have the situation where the Government pays for it all, but the Government can't afford to pay for it all. That is just the hard truth. And it does nobody any good for me to sit here and tell you that the Federal Government can pay it all. It simply cannot.

The Federal Government, as I have tried to indicate, has got a very serious financial problem of its own. So I don't think it is realistic to expect nor do I think it would really be good policy just to give people all the prescriptions that they needed. What we find when that happens, over and over history shows us that that leads to overuse and abuse and it leads to skyrocketing costs that bankrupt the program ultimately. So I think we have to be very, very clear and very, very direct that there has got to be a premium associated with this because the Federal Government simply cannot afford to do it all.

Now, the question is, a premium, you know, of that amount of money, will that work? And, of course, the question is, What do you get for that? You can't just ask the question in isolation, \$30 a month, because the question is, What do you get for that \$30 a month? How much real assistance do you receive?

And in addition to the question of affordability is the question of accessibility. Galen, I think, did an excellent job of pointing out how different we are than other States. We aren't the national average. We are nowhere close to the national average. We have a much higher percentage of people who have no prescription drug coverage than the national average. As Galen pointed out, we have a much higher percentage of people who are in rural areas and, as he pointed out, we have got many communities—I think you said 47—that only have one place where you can get prescription drugs.

Now, we can't afford to lose that one that is out there because they play a critical role in making certain that people aren't adversely affected by drug interactions, and we have already established the point that something like one in four to one in five hospitalizations in this country occur because of drug interactions or inappropriate use of prescription drugs, somebody gets the instructions wrong. So all of this ties together and it really matters to the health of the people of our State and especially of the seniors of our State. Because as you get older, you find things don't work as well.

I was just reading a wonderful book that has the letters between Thomas Jefferson and John Adams, our second and third Presidents of the United States, and, you know, they had been friends for many years and then they were rivals for many years and didn't talk to each other for 8 years, and then they started writing to each other toward the end of their lives and became friends again. And they had wonderful correspondence, hundreds of letters that went back and forth between them, and some of the letters are

very interesting. They talk about how as they become older their parts are wearing out. And to hear Thomas Jefferson's description of how his body is failing and not starting to work, he had such a wonderful way with words.

But the point is this: Putting all this together in a way that works is devilishly hard. It is hard because we have got a shortage of money, it is hard because there's a real need, and it is hard because we have got these principles that we want to apply.

Let me, if I could, ask the witnesses: Are there parts of any of these principles that you would disagree with or that you would want to especially emphasize or that you would want to provide some insight on what is affordable, what does it mean to be accessible? Let me just ask each of the witnesses if they have any comment on these fundamental principles that I have tried to outline in terms of their reactions.

Dr. Neuman?

Ms. NEUMAN. Well, I think on the work that we have done, all of these principles are very important. I mentioned the Catastrophic Coverage Act which sort of was—which came in and then came out in a rush, for a lot of reasons, but many of the problems of the Catastrophic Coverage Act are actually addressed by these principles, and it shows sort of the lessons learned and how the debate has evolved, particularly in the area of voluntary participation.

I guess on the issue of accessibility and universal coverage in reaching all people where they are, when you look at the proposals that are being discussed today in the Congress, I think that is really a key issue because today virtually all seniors, 86 percent of seniors in our country, are in the traditional fee-for-service program. They are not in Medicare Plus Choice plans. Even outside of North Dakota where they are available—here, of course, they are not available—most people chose the fee-for-service program. And so the question is, for some of these proposals that rely heavily on private plans to come into areas and offer products, if those plans aren't available or if seniors just want to be in traditional Medicare, you know, I think there is some question as to whether that approach will really make prescription drugs available nationwide and in difficult-to-serve areas.

Chairman CONRAD. First of all, could you describe for everybody what is fee-for-service? I know that we use this term, and I find that often people don't know really what that means. What does fee-for-service mean?

Ms. NEUMAN. This pretty much means when you go to the doctor, Medicare pays the bill in a very straightforward way. There is not a convoluted payment situation. You chose your own doctor, you chose your own hospital, you chose your own physical therapists, and Medicare pays the bill. It pays the fee for the service you get.

Chairman CONRAD. And nobody tells you what doctor to go to, nobody tells you what hospital to go to, nobody tells you what physical therapist to go to, you decide who you want to go to, who your doctor is, what hospital you go to.

Ms. NEUMAN. Yes, and, you know, given the health needs of this population, that becomes a very important issue because many people have long-standing relationships with their primary care doctor

or they have a cardiologist that they really like who has taken care of their heart for many years. And so the issue of being able to choose your own doctor or hospital can be very important.

Chairman CONRAD. Carol, would you want to comment on any of these principles?

Ms. HERTZ. I think AARP would agree with all of them, but I think the three major ones that we are looking at are availability, affordability, and voluntary.

Chairman CONRAD. OK, and those are certainly part of what we have talked about here today. Let me ask you this: On affordability, what is your sense on what premium level would be considered affordable by people?

Ms. HERTZ. Well, as always, I think from the AARP point of view, with all of the different plans out there, I don't think anybody has really sat down and said this is the one we will support from AARP. But I do also think that we have always said that we would have to pay something for this, it can't be a free gift. But I guess I would agree with you that in North Dakota, where we have so many people on limited incomes after they retire, you know, a lot of people in North Dakota have been self-employed and they don't have the big retirement packages that other people do. And so I think we need to keep it as low—and I would certainly agree with you that 30, 32, 35—I hope that it can be kept as low as possible, but I would have to see how it works out because it has to be—financially it has to be responsible, too. We can't give it away so cheaply that in the end we have lost it within 10 years.

Chairman CONRAD. Yes. It has got to add up.

Galen, any comment you would have on some of these principles?

Mr. JORDRE. The one thing when I talked with the patients, they didn't ask for handouts. They said we want some—if we could get some help. You know, they recognize that they would—that they need to pay for a certain amount, so I think that fits into the affordability factor. And for us you talk about—accessibility is a very key type of thing, and however the programs are laid out, that there are some provisions for our providers to be able to participate on a fair and equitable basis.

Chairman CONRAD. You know, obviously we have got to talk more about the PBM situation, these pharmacy benefit managers, because that is part of a number of the plans. That is part of what you see with major employer plans, that they tend to use these pharmacy benefit managers to administer the program. And what I hear you saying is be careful on the involvement of pharmacy benefit managers. It is one thing to have them administer it. It is another thing to have them make the policy. Am I hearing you right?

Mr. JORDRE. That is our opinion. It is a situation—and I could lay it out to a certain extent. One of our largest pharmacy benefit managers is—and I don't know what the direct relationship is supposed to be. There is supposed to be a fire wall, but they are a subsidiary of one of our largest pharmaceutical companies.

Now, they determine, the pharmacy benefit manager—if they set up a formulary, they determine what drugs go on the formulary. They also have their own mail, they are—this same benefit man-

ager is one of the largest providers of mail-order pharmacies, so they set up plans that will skew things to——

Chairman CONRAD. Make it more attractive.

Mr. JORDRE. To make it more attractive to use their own facility. It is really a situation of the fox guarding the hen house. That is our opinion, and they tell our people, if you don't play by our rules, hit the street.

I would just like to say one other thing in the affordability aspect is, and where your problem is, is, I think, figuring out a way to get equitable discounts from the pharmaceutical companies. If you are going to be having—if we are having a program to leverage some of the other discounts that are already out there and are in place and having a method of getting those to the people who are paying for those prescription drugs.

Chairman CONRAD. All right. It is a very, very good point. Let's do this. Let's open it now to people who are here as well in the audience for their questions or their comments or their suggestions. Anybody in the audience that has got an observation about this question of prescription drug coverage or has a comment or a question, we would be happy to open it to you as well.

While you are thinking let me just continue with the panel—yes, sir.

Mr. STUHLMILLER. Senator, my name is Norm Stuhlmiller. I am from Bismarck, and I want to commend you for taking the initiative to work on this. It is something that is certainly needed.

I have a concern about the affordability, not the fact that it is part of the fourth element. But having been in education for 40 years, as soon as the Federal Government or the State government, whichever it might be, promotes something—I am thinking of the reading program that was promoted probably when you were in school. Every school could get this machine, and it would teach the students how to read better, how to read faster, so on. Guess what? When you—before the Federal Government got in and said we will pay for this machine, it cost \$125. As soon as a Federal Government came in and said that they would pay for it, the price jumped to \$250.

Is there something in this plan that will monitor the pharmaceutical companies from doing exactly that because they have now discovered somebody with deep pockets?

Chairman CONRAD. Well, I think you have touched on one of the most important questions. What is the effect on prices if all of a sudden you have more money available to provide for prescription drugs or if the government is sharing in some of the costs or if Medicare is providing a prescription drug benefit.

Any of the panelists want to respond? Dr. Neuman, do you want to?

Ms. NEUMAN. Well, I think you have come right to the heart of a really difficult issue, which is: How can the Government or how should the Government control the costs of this benefit? Because the strategy that the Government chooses will affect both what the Government spends but also ultimately what consumers spend, because it has to do with what price is set for individual medications. And the current thinking seems to have the Government have sort

of an arm's-length distance between themselves and the process of negotiating price discounts with manufacturers.

There is not a lot of—most of the proposals today don't have the Government do direct negotiating using the Government's clout as a large purchaser to obtain discount prices, and that is why there seems to be some interest in working with these pharmacy benefit management companies who would sort of do the work on behalf of the Government but not have the Government do it itself.

That said, I think you raise a really difficult issue that I think needs to be given a great deal of thought.

Chairman CONRAD. Can I add something? In terms of this issue—and I call on other panelists on this issue as well—one of the things that most struck me when we looked at the data was that if you are in a plan you pay, on average, half as much for prescription drugs as if you are on no plan at all, and that is because if you are in a plan, you have some negotiating power. It is not just, you know, you are buying for yourself. And given the fact that such a large percentage of our people in North Dakota are not part of any plan at all, half of seniors, we believe more than half, are not in—and I think you indicated that you believe it is a high percentage in North Dakota are in no plan—those people are paying the absolute top dollar for prescription drugs because they are not part of a group that can negotiate better prices.

So one of the biggest advantages we see to a voluntary plan, but one that anybody can join who is Medicare eligible, is those who are not part of any plan now will see a very sharp reduction in their costs just because they are part of a group that has purchasing power.

Galen, maybe you want to—

Mr. JORDRE. Well, you are getting into some areas where I have some fairly strong beliefs and they are probably biased. But I think your—I think people are overestimating the power of these entities to negotiate price and—

Chairman CONRAD. You are talking now about the PBMs.

Mr. JORDRE. The PBMs. And I will give you the example: For a pharmaceutical company to provide drugs under the Medicaid program, nationally, they have to sign a contract with the Federal Government that will agree that they will give rebates to the Medicaid program based upon the best price that they give anyone.

Now, this last year in North Dakota, based upon those best prices for all drugs, our Medicaid program got a rebate of approximately 16 percent. Now, that represents a market basket of all the discounts, the best discounts that are given.

Chairman CONRAD. That are provided were about 16 percent.

Mr. JORDRE. About 16 percent. So when we talk about 30 percent, 40 percent discounts, I don't see where those are going to come from. And General Motors, who has a big, big billion-dollar-plus prescription drug medication budget, they are crying about this just as much as anyone else. I don't see these private programs being affected, much less than the individuals. It is unfortunate, and you are exactly right, that when you talk about a deep-pockets person, it has gotten down to in this country that the deep-pockets persons are those people who really can least afford it, the uninsured, because they don't have that organized—

Chairman CONRAD. And they wind up paying the most. That is the irony of all of this; the people that are the least able are the ones that pay the most.

You make a very, very good point that when we look at the discounts that these PBMs are achieving for their private sector clients—that is really what we are talking about here, that is, the discounts they have negotiated for Ford Motor Company's plan, General Motors' plan, IBM's plan—they are getting, on average, a 16 percent reduction. That is what you are reporting, Galen.

And so the question is: If you have more people that you are negotiating on behalf of, can you get an even bigger discount? Well, I think Galen was saying you can get a little bit more but you are not going to get a whole lot more. You are not going to get 40 or 50 percent. That is kind of the conclusion you have come to, I take it.

Mr. JORDRE. And I am not sure—and this is where I am getting into the slippery slope because we hear like the Federal employees—or not the Federal employees but the Veterans Administration, the Armed Services, and the discounts that those entities get, which are higher, but it is my understanding that those discounts are also tied to participation in the Medicaid program. In other words—

Chairman CONRAD. How big are those discounts? Do we have any kind of idea?

Mr. JORDRE. Well, I have heard up to 40 percent for the Federal program.

Chairman CONRAD. I have people bring to my attention going across the border into Canada. I went up with some women from northeastern North Dakota. We went up into Canada where they buy prescriptions and they are from Pembina, North Dakota, and they took me up with them one afternoon and they showed me the savings, the difference between what they paid in the United States and what they paid in Canada. And it really was very dramatic. On some things it was three times as much in the United States for the exact same dosage, the exact same medication.

I had a doctor write me from up in that area, and he sent me an example of a person who paid ten times as much in the United States, ten times as much as what he could pay for it in Canada. Now, I think that is a rarity, that much of a difference, but this doctor sent me the labels and the bill. That is also an issue and it is because the large manufacturing companies charge what the traffic will bear.

Isn't that, in essence, what happens, Galen? I mean, they are charging you a lot more than they are charging the same kind of operation in Canada.

Mr. JORDRE. Well, in part, and we are getting into an area where if you would want to call it price controls, but for a company to introduce a drug into Canada, the Canadian Government, as part of the approval process, tells them how much they can charge for it and they have different functions than our Government has. And I don't know if we necessarily want to go down that road and stifle—with some of it we do, but in a lot of the industrialized world that is what happens.

Chairman CONRAD. Carol?

Ms. HERTZ. I would like to speak to this simply because it is a personal problem of mine, and I have bought drugs both in Canada and in Mexico, and I spend about \$400 a month because I have asthma. And the time I went to Canada—and I did this for about 3 or 4 years. I went up once to see a doctor because in Canada you must see a physician before you can get the prescription filled. This was a drug that was widely used in Europe and in Canada but hasn't been approved in the U.S. I used it for—I think it was 4 years before it finally was approved here. It was cheaper in Canada. It was no hassle. I went once and I called the pharmacist when I needed a refill and he would send it across the border.

Now, because we vacation in California, every winter I stock up on as much as I possibly can of my inhalers and other things that I can think of. I can't buy everything in Mexico because sometimes their dosages are different, which you have to be very careful about that. But when I added what I was buying in Mott, North Dakota, from the pharmacy, plus what I averaged out what I spent in Canada on the 12-month basis, it came to \$400; and the inhaler—

Chairman CONRAD. That was your savings?

Ms. HERTZ. No, that is what I spent a month, and even though I go to Canada, I am still spending that. Imagine what it would be if I didn't go to Canada.

Chairman CONRAD. Do you have any idea, Carol, how much you saved by buying in Canada?

Ms. HERTZ. Well, I can't tell you every one but the inhaler Galen held up—I don't know if it is Ventolin or Albuterol or which one it is—but I buy that inhaler, if it was Ventolin, it cost me \$23 in the United States to buy that inhaler. When I go to Canada, I get three of them for \$21. It is the same thing, the same writing. The only difference is on the inhaler that I buy in Mexico there is a teeny red stripe. That is the only way I know they are different.

But you also have to say one of the thoughts has been re-importation of drugs. Well, that is a nice thought but what if, when I get old and infirm and can no longer do this traveling, I need a prescription drug coverage in Medicare because that will cover me no matter where I am.

Chairman CONRAD. Yes, it is a very good point. Some have said, you know, the answer to this whole problem is just re-importation and let's get the prices from Canada but we know it may help but it is—

Ms. HERTZ. It is not the answer. We need something right here.

Chairman CONRAD. Yes. Other observations? Other questions? Yes, Bernice.

Ms. MEYER-KNUTSON. Since you mentioned the part about Canada—most of you know this anyway—but I, for example, have taken Tamoxifen for 5 years and I wanted to buy it right here. I found out that it would cost me from \$89 up to about \$110 a month if I bought it in Bismarck. I finally decided to visit my Canadian relatives, and I found that in Estevan I could purchase a whole year's supply for about \$187, which also included what I purchased for a thyroid medication. So here it would have cost me over \$1,200 a year, there it was \$187 for the Tamoxifen for the year, plus the thyroid, so that was quite a difference.

Chairman CONRAD. Yes. Let's try and calculate, if we can, the difference there, 15 versus 110. Boy, that is almost seven times as much, right?

Ms. MEYER-KNUTSON. At least.

Chairman CONRAD. Well, this is what we are finding and what we are encountering and what people are telling us; and it creates a devil of a situation for our pharmacists because pharmaceutical companies are charging them the much higher rate here than they charge for the same thing that they sell to the guy in Canada. So obviously that is a significant part of this equation.

You know, obviously, we don't want to prevent the manufacturers from making a profit so that they can invest money in finding new drugs that make us all healthier but, boy, there is something wrong when our consumers pay so much more than consumers in Europe and Canada for the same thing. There is an unfairness going on here. And, you know, my own view is people in Canada and Europe, we should pay less and they should pay something more so that we finance, you know, more fair share of the research effort and some of these pharmaceutical manufacturers should make less. I mean, their profits, pharmaceutical manufacturers, are among the highest of any industry group in the world. So there needs to be a little bit of give all around, it seems to me, to come up with kind of a fair distribution, but our people are really getting hit.

Yes, sir.

Mr. GLOTT. Leo Glott from Bismarck. The idea of NAFTA does take care of private buying between countries, really, so they should take care of some of that.

Chairman CONRAD. Mr. Glott raised a very interesting question. The North American Free Trade Agreement, doesn't that deal with some of these questions of being able to buy things in other places? If you look into the question of prescription drugs, it is a little different situation because different rules apply.

Galen, maybe you can tell us how that works.

Mr. JORDRE. Well, I think the one thing that we have to consider is, once again, that prescription drugs are not a commodity, they are a lifesaving thing. And in the case of most of these, the Federal—the Food and Drug Administration approves every drug that is for use within the United States.

Now, in Canada we have a situation where many of these drugs, they are actually approved in the United States and exported, but if there are drugs that are manufactured in Canada, they may not be approved for use here. And so those are some of the things that we have to overcome with NAFTA in order for those types of things to cross, move across the borders.

We have supported re-importation for pharmacies so we could purchase those types of things, but Secretary Thompson just recently and, prior to that, Secretary Shalala of the Clinton administration both determined that legislation that Congress passed that would allow that, that it would be too difficult for the Food and Drug Administration to enforce and ensure the safety of those products. And the thing that I am afraid of is, as we see our prices going higher, we have people who are more desperate to get things from whatever source they have, is that we are going to see a

greater avenue for counterfeit and fraudulent drugs to be coming on to the market, which is going to make them much more difficult for everyone.

Chairman CONRAD. Thank you very much. Any last observations? We have just about come to the end of our time here and I wanted to give panel members any last chance to comment before we close the hearing. Yes.

Ms. NEUMAN. I just have one thing. You know, this issue of revenues for the pharmaceutical industry is really a big issue in the current debate, and there is a lot of concern that any Medicare drug benefit would threaten the profitability of the industry. But one of the, sort of, pieces of the puzzle that is often not mentioned is actually it is conceivable that revenues would increase, not just because of the price issue but because so many more seniors would be able to fill the prescriptions that their doctors are giving them. So if we have a problem today because those who lack coverage aren't filling their prescriptions and a Medicare benefit would allow them to do so, then that really does have the potential to increase revenues, perhaps making some of the concerns that have been raised less troublesome than some might think.

Chairman CONRAD. Carol.

Ms. HERTZ. One of the things I would speak to is that there has been a lot of talk about how the pharmaceutical companies would not have the money to do research, but they don't do the majority of the research. The research is done by the Government. They spend their money to promote their products, and that is where they have their biggest expense. Research comes from the National Institute of Health in the greater portion of any new medicine coming out.

Chairman CONRAD. Well, that is a very good point. The major drug manufacturers actually spend much more of their money on promotion than they do on research.

Connie.

Ms. MCBRIDE. I just would underscore what you said about there being a cost to it. I don't think anybody that I know would have a problem with the cost and, in fact, anybody who has even been on an employee plan, they know the employer is on kind of a cost share. So I certainly don't think there would be any problem.

In fact, I think even you said something about the huge surplus—if it can be affordable and accessible and there is a cost share, I think that is ideal. And I don't know as far as premiums, you know, how you even start with that. I am sure that you know what the economies of scale are and what negotiating power you have to get a sense of how many voluntarily are going to participate. So I don't know how that all flows together but anything is better than the situation we have now.

Chairman CONRAD. All right. Thank you. Thanks to the witnesses. Special thanks to Dr. Neuman for traveling to North Dakota to be with us here today representing the Kaiser Family Foundation that has done such terrific work in this area. I mean, they really have been a tremendous source of information to all Members of Congress, and we thank you very much for being here and for the effort that you engage in every day. And Carol Hertz,

thank you; Galen Jordre, thank you so much for being here; and Connie McBride as well.

I think this has been a good session, has certainly been helpful to me, and this will be made part of the hearing record of the committee and we will declare a recess.

[Whereupon, at 11:30 a.m., the committee was adjourned.]



## **THE FARM BILL**

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**FRIDAY, AUGUST 31, 2001**

U.S. SENATE,  
COMMITTEE ON THE BUDGET,  
FARGO, ND

The committee met, pursuant to notice, at 9:30 a.m. in the Prairie Rose Room, Rooms 335 & 336, Upper Level of Memorial Union, NDSU Campus, Administrative Avenue, Fargo, North Dakota, Hon. Kent Conrad, chairman of the committee, presiding.

Staff present: Mary Ann Naylor, Majority Staff Director; and G. William Hoagland, Staff Director.

### **OPENING STATEMENT OF CHAIRMAN CONRAD**

Chairman CONRAD. This hearing will come to order. First of all I want to welcome all of you here. Thank you for coming. I wanted to especially welcome the witnesses, the really excellent panel of witnesses we have for the committee this morning. I also want to give a warm welcome to my colleague Congressman Pomeroy who will be here representing the House of Representatives and taking testimony.

Obviously this hearing comes at a critical time because the new farm bill is in the process of being written, and the timetable for writing that new farm bill has been moved up dramatically by events occurring in just the last 24 hours. I will get into that momentarily. The committee meets this morning to hear directly from the people of North Dakota on their views on the new farm bill. Congress is expected to complete the debate on a farm bill sometime this fall. As a member of the Senate Agriculture Committee I believe it's essential that we hear firsthand from those whose livelihoods are shaped by Federal farm policy.

The job ahead of us is an urgent one. Current policy must change. Freedom to Farm has failed. That is the reality. Even a commission chartered by the authors of Freedom to Farm concluded that the new law was fundamentally flawed, and this chart shows that. The Commission on the 21st Century Production of Agriculture said, "Freedom to Farm is a failure". The four disaster assistance bills that we have had to write in the last 4 years are ample testimony to that failure. The fact is we have had to provide over \$25 billion in just the last 3 years to rescue the failed farm policy that was put in place in the last farm bill.

As this next chart shows, government payments today account for about 40 percent of net farm income nationally. You think about that. Farm programs account for 40 percent of net farm income nationally. In a major grain producing state like North Da-

kota government payments make up an even larger share of farm income. In the year 2000, for example, government payments exceeded 150 percent of North Dakota's net farm income. Let me say that again. In the year 2000, government payments provided 150 percent of net farm income in the state of North Dakota. This situation is confirmed in the next chart from the North Dakota Business Management Program which shows that the average farm in the program would have lost money last year without government support. Agriculture's dependence on government support reflects a farm economy battered by several factors, including 5 years of record world production, a strong dollar that is hampering our exports and the subsidies and protectionist policies of our competitors. Make no mistake, our farmers are on an unlevel playing field. They are being asked to take on our major competitors, the Europeans, and the Europeans are spending far more money supporting their producers than we are spending supporting ours.

The next chart makes the point in the way that I think is dramatic and clear. This chart shows the European union continues to account for the lion's share of world agricultural export support. If you look at the pie, the blue part is European support for export subsidies. 84 percent of world agricultural export support is from the Europeans. We account for 3 percent. Less than 3 percent. They are out-gunning us here 30 to 1. Is there any reason to doubt why our farmers are having a very difficult time? But that is not the end of the story.

As the next chart shows, the direct support to producers by European governments overwhelms our support for our farmers. On average, the Europeans are providing over \$533 an acre of support a year. That compares to our \$38. Again is there any wonder why there is major economic hurt in farm country? This is simply an unfair, unlevel playing field for our producers. On the one hand I admire the Europeans' commitment to their farmers. They know the value to their economy and to their society of keeping their farms prosperous. On the other hand I am deeply concerned that the current situation leaves our farmers at a severe disadvantage, and as necessary as government support is in these circumstances, I am also concerned that the current level of payments is probably unsustainable over time. So change is essential.

There are some aspects of the current policy that serve farmers well and that should not be discarded. Chief among them is the planting flexibility included in the past farm bill. Farmers want to be able to plan for the market, not for a farm program. And that flexibility needs to be maintained in any new farm policy. The job of writing a new farm bill is never easy, and unfortunately the vanishing budget surplus is certain to make the challenge of writing the next farm bill all the more difficult. As the Congressional Budget Office confirmed earlier this week, the budget surplus is gone. According to CBO, as a result of the administration's fiscal policy, not only has the surplus disappeared, but over the next decade \$500 billion will be taken from the Social Security and Medicare Trust Funds to finance the other operations of government. Let me repeat that. Under the President's budget plan over the next 10 years \$500 billion will be taken from the Social Security and Medicare Trust Funds to finance the other operations of gov-

ernment. That is especially a problem given the fact the baby boom generation starts retiring in 11 years. And those funds will be necessary to keep the commitments that have already been made to them. The bottom line is that the additional farm bill money set aside in the budget resolution just this spring is in serious, serious jeopardy.

As this next chart shows, all that new farm bill money shown here in red for the years 2003 through 2011 may be gone as a result of the new budget numbers. That was confirmed in a story this morning in the Wall Street Journal with the headline: Bush's budget update could slash farm subsidies. The story in this morning's Wall Street Journal reports: The small print in President Bush's revised budget estimates could spell big trouble for farmers who have grown dependent on Federal aid during recent years of low crop prices.

With White House backing, Congress approved a budget resolution in May that promised to extend the safety net for agriculture, but in its mid-year budget update released last week the administration says any new farm bill must pay for itself with savings elsewhere to protect the dwindling surplus and the President's defense buildup.

The article goes on to report the White House says it is prepared to work with Congress to meet farmers' needs but a budget spokesman said no commitment had been made to the extra money for agriculture in the May budget resolution. Quote: "We praise the budget resolution", he said. "We did not assume that additional level of spending in the years 2002 and beyond."

This is dramatic and very bad news for those of us who hoped that the resources would be available that are in the budget resolution to write a new farm bill. The President and his new budget submission last week has now changed the terms of the debate and changed the terms of the budget resources available to write a new farm bill. Instead of the \$67 billion being available, the President is now saying it will have to be cut from other parts of the budget.

Education, prescription drugs, defense—somewhere else will have to provide the money. As I have indicated, that puts the money to write a new farm bill in serious, serious jeopardy. Adding to the challenge is the circumstance we face with the timing left in this fiscal year, because the new Federal fiscal year starts on October 1st. And so we are now in a race to get this new farm bill written so that the money does not disappear.

In summary we have our work cut out for us. As we hear the testimony this morning I hope that we can reflect on a few major policy questions in particular.

For example, are farm program benefits getting to those who need them? According to USDA there are nearly 2.1 million farms in the United States but about 1.2 million are hobby or retirement farms with less than \$10,000 in farm income. At the other end of the economic spectrum are 70,000 farms with annual sales in excess of a half-million dollars. Should we do more to target farm programs to those commercial farms in the middle?

Second, what role if any should supply management tools, such as set-asides and grain reserves play in a new farm bill? Especially

if we find ourselves with much less money for direct income support.

Third, what is the proper mix of spending between farm price support and conservation programs?

Fourth, what new steps should we consider to increase market opportunities for agricultural products both at home and abroad?

And I would add in light of this news this morning, what can we do on a grass roots basis to convince this administration to again support the additional resources that will be necessary to write a new farm bill?

I think we all know that just continuing the farm policy that we have had will not work. That is why we have had to write four economic disaster bills in the last 4 years. Can you imagine what would have happened in North Dakota without that additional support?

We have received over a billion dollars for North Dakota farms from these economic disaster bills and that doesn't count this year. A billion dollars. Can you imagine where we would be without that support? And now the President is saying that that additional financial support that is in the budget resolution, passed by both houses of Congress, is null and void as far as he is concerned in his budget.

This is a sobering day, and this is going to take all of our best efforts to overcome so that we have the resources necessary to write a farm bill that will level the playing field for our producers. We can't leave them in the situation in which Europe provides \$533 an acre of support every year and we provide \$38. We can't leave our farmers in the circumstance and the position in which Europe accounts for 84 percent of all the world's agricultural export support and we provide 3 percent, leaving our producers outgunned 30 to 1. That cannot be the result of a new Federal farm policy. But we can't have a different outcome without additional resources. You can't write a better farm bill without additional money. It's that simple and it's that serious.

With that I want to indicate that this is an official hearing of the U.S. Senate, and we will, as a result, be under U.S. Senate rules. That means that there are certain items of decorum that we must observe. We listen to every witness with respect, we ask that there not be public expressions of support or disapproval for anybody's thoughts and positions. There is always opportunity for that at a later time and a later place, as we understand and respect. But in a Senate hearing we listen attentively and with respect to every witness, whether we agree with their position or not.

I also want to say at this point that I am especially pleased that my colleague Congressman Pomeroy is with us. He served with distinction on the House Agriculture Committee. He has now, I am very proud to say, been put on the most powerful committee in the House of Representatives, the House Ways and Means Committee. It is the single most powerful committee in the House of Representatives and it is really a distinct honor for the State of North Dakota that he has been named to that committee. If you think about it, we only have one Member of Congress from North Dakota. California has over 50. I think New York has something like 30. And

those delegations are able to go to their leadership and insist on certain representation on the House Ways and Means Committee.

In our State, Earl is all by himself. We're especially proud that he has been named to that very powerful committee. It increases North Dakota's ability to get things done by a big factor.

Congressman EARL POMEROY.

**STATEMENT OF HON. EARL POMEROY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA**

Mr. POMEROY. Thank you very much, Mr. Chairman. For the record, I have a statement which will be included, I ask, and I will summarize it for purposes of my comments here. In light of the breaking development relative to the budget submission on the construction of a new farm bill, clearly, Mr. Chairman, your leadership is going to be central.

By chairing the Senate Budget Committee and serving as a long-standing member of the Senate Agriculture Committee, you will be playing the major leadership role in trying to make certain that the costs of building a new farm program are sufficiently provided for in the budget. It also means today's hearing, which is the first legislative hearing discussing the farm bill under the terms of the recent budget announcement is the most important discussion about the new farm bill that will occur anywhere in the country today, and we appreciate you bringing this forum to Fargo, North Dakota to hear from the leaders on what they need in a new farm bill.

Many of the faces, Mr. Chairman, will be very familiar to you as they are to me, faces that we encounter across North Dakota as individual producers and representatives of individual producers. I see many of the very same faces in the halls of Congress, however, as they really represent nationally significant leadership positions within their respective commodity organizations or farm organizations. It certainly speaks to the talent of North Dakota farmers to have the kind of national leadership emerge from the representatives gathered here in the room.

Well, there is three quick points that I want to make. First that we need price protection in the new farm bill. We need it in a way that preserves family farmers on the land, and we need it in a way that makes sense, that basically provides a reliable price for what is produced in a given year. I'll speak quickly to each of those points.

First, price protection. I am very pleased that, with the notable exception of the upcoming budget debate—I'll talk about that in a minute. There has been a remarkable consensus that was present in this farm bill debate not present in the last one. Farmers need price protection. Radical price swings can take a farmer's profitability away, can put that farmer out of the business of farming, irrespective of anything they can do about it, and that is why we need a price safety net.

This is very different than the Freedom to Farm Bill debate when the market would provide. It's a very disturbing element, however, that the budget discussion is added to this, because while last time we encountered the argument farmers didn't require price protection any longer, the net result of an argument that, well, we can't afford to give price protection to farmers is exactly the same.

No price protection for farmers. And farmers need price protection. We have had to spend \$30 billion in disaster assistance over the last 3 years and it's played a critical role in keeping our farmers in the business of farming. We must find the resources to adequately fund price protection in this farm bill.

Second point, if you have price protection but you don't get it to where it needs to go in the most effective way, you really haven't accomplished what you set out to do. A recent Associated Press article by Phillip Brasher highlighted the problem of the current system which tends to reward large corporate operations with millions of dollars at the expense of medium-sized farms. Now rewarding large producers without limitation only accelerates farm consolidation, it only ensures that the money you are providing in the farm bill gets capitalized immediately into land values and in the end it leaves no more in terms of farm profitability to the producer.

An analysis released in June by the General Accounting Office states that almost one-half of farm payments went to just 7 percent of all farms—the largest farms. One-half the resources is 7 percent of the largest farms. They received a payment on average 3 times that of the average farm. We're not talking about focusing support on little hobby farms where most of the money supporting the family is all farm income, but family farms do require I think the bulk of the support unlike the present system. Keeping families in midsize farming operations in the business of farming enhances our overall agricultural economy and is part of the goal, central goal of this farm legislation. Paying millions to corporate farms is not.

Third, we ought to construct this in a way that makes sense, and rewarding farmers for price assurance for that which they grow makes sense. Continuing with a system that provides revenue assurance whether or not a person is growing a crop in a given year does not make sense. What is important about this is, in light of the budget scenario you have discussed, Mr. Chairman, this is going to be looked at with a very exacting review by commentators not at all friendly to the business of farm programs in the first place. If we can't explain why we're doing this we're not going to be able to sustain it. And paying people whether or not they produce, basically price support payments, I don't think in the long-term will critically pass review. Blindly seeking the combination of fixed, decoupled payments at the expense of supporting actual producers with better marketing loan rates neglects the reality of current agriculture trade across the world, which is by its very nature distorted by foreign subsidization programs. Total production costs for farmers are expected to reach a record this year, \$179.5 billion, around \$4.26 per bushel of wheat. To build a farm bill that doesn't bring up market loans, to give better price protection in light of those production costs really misses the point in terms of how you build a better farm bill.

The House-passed bill I think represents—there's good news and bad news about the House Agriculture Committee passed bill. The good news, it does speak in a significant way to price protection for general commodity production. The bad news, it's not targeted. The bad news, it's not based on actual production. And I think we will certainly want to try and move this bill out of the House, get it

over to the Senate, but it needs re-working in these three critical areas.

Again, we need price protection; we need to make sure it goes to family farms; and that it's appropriately targeted so that corporate farms and large scale farms are not taking most of the resources provided.

And finally, Mr. Chairman, we need to focus this production, this support so that it rewards the actual production taking place in a given crop year. I think if we come up with those elements in this farm bill we will have a tight package that will get the kind of budget support we require to fund it adequately. Thank you.

Chairman CONRAD. Thank you very much, Congressman Pomeroy. And let me indicate that we especially want to thank the North Dakota State University for accommodating this hearing today. We appreciate all of the things they have done to make this possible, so special thanks to NDSU and special thanks to Pat Jensen for helping us make the arrangements here.

I also want to indicate, because this is an official hearing of the U.S. Senate, one of the rules that applies is if people have cell phones or beepers, if you'd take those out and turn them off we would appreciate that so the witnesses are not interrupted.

I want to remind all of the witnesses that their full testimony will be made part of the record of the committee, and we ask them to summarize their comments in roughly 5 minutes—we're not going to be slavish about the time—so that we have time for all of the witnesses and for questions as well.

Chairman CONRAD. I am especially pleased that our lead-off witness this morning is the Governor of North Dakota, the Honorable John Hoeven, and let me say as he is making his way to the desk that the time limit does not apply to the Governor.

Welcome, Governor.

#### **STATEMENT OF HON. JOHN HOEVEN, GOVERNOR, STATE OF NORTH DAKOTA**

Governor Hoeven. Thank you. I appreciate your comment regarding the time limit. However, I will try to honor the 5 minutes. But I do very much appreciate being here and commend you for holding this hearing.

No question, agriculture is the foundation of North Dakota's economy and we're working hard to build diversification in our economy, with advanced manufacturing, technology-based business services, other types of businesses, and of course you have been involved with that, but we still remain the most agricultural state in the union, and agriculture is truly our foundation.

That is why it is so vitally important that we have the right kind of farm policy not only for our farm families but for our entire state to set the right kind of foundation. We absolutely need a long-term policy. We need a long-term policy with a counter-cyclical safety net so that our farmers can plan and do business on a long-term basis just like any other type of business person, and that is the problem with the year to year ad hoc disaster bills.

How do you plan, how do you do business, how do you make commitments and how do you honor those commitments when year to year you have to guess what the farm program is going to be? And

if we want young people to go into the business of farming they need some stability of income, some certainty, so that they can get into the business of farming and have the chance to be successful and to build their enterprise.

That is why I think we have got to make sure that we look for the right kind of vehicle and make sure that we work to get legislation passed this year that provides a long-term plan and the right kind of counter-cyclical safety net. And I believe that the Farm Security Act of 2001 known as Combest-Stenholm offers that type of vehicle.

I understand with any plan there is always room for modification, for adjustment, for improvement, but I think this is a balanced plan. It's balanced among the different commodity groups which is critically important. There is good, fair balance in the plan. It's a bipartisan plan. Its sponsors come from both sides of the dial. It's got good conservation measures, and if we're going to get a farm plan passed we need to get that help and that support. And it's got good conservation measures to it.

I want to go through just a few of the specifics and I'll move right along in doing that, however, I just felt it was very important that I start out on this note, there is a certain Senator in Washington, D.C. who has become famous for his use of charts. He never shows up at a hearing without a chart, and it's worked so well for him that I couldn't show up without charts. My assistant has brought forth a chart.

You know, a picture is worth a thousand words in many respects. I mean you use them because they are effective, and what this shows quite simply is the bar closest to me shows the current plan and it shows the AMTA payment that is provided. The other bar shows not only the AMTA payment that would be continued under the Combest-Stenholm program, but also everything above kind of the white line there shows the counter-cyclical payments that would come in in years that we have low prices, and that is the feature that we're missing that is so critically important, and it's got to be there over a long enough horizon that farmers can make their commitments and meet those commitments.

Now this plan has North Dakota roots and some of the folks that really are the authors of this plan at a fundamental level are sitting right here in this room. The North Dakota Grain Growers, and the National Association of Wheat Growers really brought forward the structure for this plan and brought forward the mechanism that makes it very effective. Also this plan is underway. It passed the house Ag Committee on a voice vote which shows strong bipartisan commitment and there is a good chance it will be on the floor of the Congress in the next few weeks. So it's moving. It's very important.

In terms of the mechanism as far as the counter-cyclical safety net it blends three approaches to enhance farm revenue security. There is a direct decoupled payment which reduces cash-flow risk during low production seasons. There is a marketing loan which provides price protection based on actual production, and there is a new counter-cyclical payment which helps protect farmers against low prices, and that is the underlying mechanism.

There are a number of areas that this bill provides good, solid support. I will try and touch on a few of those quickly.

First, regarding planting patterns and oilseed production, which is a big issue for us here in North Dakota, we have seen dramatic changes in cropping patterns over the last 20 years. We have seen a large increase in our oilseed acres, including soybeans, canola, sunflowers, and other crops, as well as changes in our farming practices, in our conservation tillage.

A key provision of this bill allows producers the option of updating their payment acres based on their recent planting history. Farmers would be able to either choose the higher of their current base-acres or the most recent 4-year base average, whichever is higher, and that is a winning situation since producers have a one-time option to select a base-acre strategy that reflects the way they farm and provides the best returns.

And the bill also allows the establishment of new payment yields on oilseed acres.

Sugar. Big issue for us. It eliminates marketing assessments and re-establishes payment in kind for sugar producers, and it also establishes marketing allotments, and with the sugar imports from Mexico, stuffed molasses from Canada, and some of those issues, that is critically important to our sugar producers.

It helps with specialty crops, which is very important.

And again conservation, as I mentioned. I think the conservation measures in the bill are going to be fundamentally important to getting it passed because that is how you build support outside farm country. And that is very important.

You know, Senator Conrad pointed out the \$313 an acre that farmers are getting in the European Union, and those direct payments are casted as conservation payments. We need to learn from that example and say, hey, fine, if that is what people are willing to support, then we need to use some of that same strategy, and I know you are a strong proponent of that and it makes good sense.

Rural economic development programs, and that is something I work with a lot, and everything from block grant funding to loan guarantees to additional loans, not only for Value-Added ag, and we're the leaders in Value-Added ag. That movement, North Dakota leads the country in that area, and there is funding in there for that type of thing, both in terms of grants, which are fundamentally important to buttress our equity situations, but also loan guarantees and loan funds. So that is a component of the bill, as well.

Trade and export you are very familiar with. It continues funding for the Food for Progress Program, PL 480. Market Access Program, the Foreign Market Development Program, and Export Enhancement. And we need to be very aggressive in using those programs, and that is something the administration is focused on. They are very focused on the marketing side, building the markets using those tools. That is good. We need to continue to work with them, push with them on the farm bill side, on the production side.

Ag research, the final area I'm going to mention. Alsen, a hard red spring wheat variety, disease resistant. It was developed right here in North Dakota and has made a huge difference, a huge difference for our farmers. We need the same kind of thing with

durum. We've seen a lot of scab in the northern part of the state. So that funding for research in this bill is critically important. I'll stop there.

But I guess the final point I want to make, again, we need this long-term policy, we need the right kind of safety net, but we need to work on a bill that we can get passed and we can get in place. We need to do more than talk about this, we need to get it done.

I look forward to working with Governors to build that kind of support. I look forward to working with the farm groups.

Senator Congressman, I look forward to working with you to get that done. Thanks so much.

Chairman CONRAD. Thank you so much for coming and testifying. We appreciate your comments Governor Hoeven.

I want to go back to where I began. I was a bit blind-sighted, myself, this morning. As I walked in I was handed this news story from this morning's Wall Street Journal, and it spells real trouble for all of us. Because to fund the bill that you are supporting here this morning takes the additional resources that are in the budget resolution. This story from the Wall Street Journal that says "the small print in President Bush's revised budget estimates could spell big trouble for farmers", spells big trouble for all of us, because we can't write this bill without the resources that are in that budget resolution. For him to now say to us in his mid-year budget update that the administration says any new farm bill must pay for itself, really just dramatically alters the circumstances that we face.

And so working together we have got to try to find a way to persuade the administration to reverse course here and go back to the position they were in in May when they supported those additional resources that are in the budget resolution so that we can write a bill that has that same level of support that is in the legislation that you discussed.

And I just urge you to go talk to other Governors and to try to communicate with the administration and hopefully get them to support the resources that we're going to need to write any kind of new farm bill that would be effective.

Governor Hoeven. Senator, I had a conversation the day before yesterday with Dale Moore, and had that very discussion, and we are going to continue to push.

Chairman CONRAD. I think we have got to, in light of this news this morning and what is buried in the fine print in the budget submission by the President. We have got to redouble our efforts, and I pledge to you to work with you and with our colleagues from farm country, because all of us have got a lot at stake. Thank you so much for being here.

Governor Hoeven. Thank you.

Chairman CONRAD. Next we'll call on the Honorable Roger Johnson, the Commissioner of Agriculture for the State of North Dakota. Roger Johnson, our Agriculture Commissioner, welcome. Commissioner Johnson is probably the most active, most respected agriculture commissioner in the country. I can tell you that on the Senate Agriculture Committee he is seen as the leader of agriculture commissioners around the country, and within the agriculture commissioners he is recognized as the single most knowl-

edgeable with respect to farm programs. In fact, he has been the one selected by the other agriculture commissioners to draft the initial proposal by the agriculture commissioners of the United States for its submission to the Senate Agriculture Committee.

So Roger, we are delighted you are here and we applaud you for the leadership you have provided to agriculture commissioners around the country.

**STATEMENT OF ROGER JOHNSON, COMMISSIONER, NORTH  
DAKOTA DEPARTMENT OF AGRICULTURE**

Mr. JOHNSON. Thank you Senator and Mr. Chairman. It is with a great deal of pleasure that I am able to address you in that fashion, as well, Mr. Chairman. I am going to try to be very brief. You have a copy of my written statement which is far longer than 5 minutes so I am going to skip very quickly through it.

I want to make several points at the outset. I think Governor Hoeven did a very good job of describing the importance of agriculture to North Dakota's economy. I am not going to repeat that description. I think we all know of that, but for the record I certainly want it there for the rest of your colleagues in the U.S. Senate.

With respect to the House bill that is moving, let me make a couple of quick points. I will come back to those as I go through the testimony. The first observation is that it is far better than what we have today and we ought to acknowledge that. It has some important features and I think the Governor pointed out a number of those that we ought to be very thankful of.

Let me focus on a couple of fundamental areas where I think I would like to see improvement, and in fact they are areas where all the ag commissioners in the country also agree that there is room for improvement.

We strongly believe that there ought to be a mechanism to move up loan rates, to re-balance loan rates. They are the fundamental source of price protection that we have always argued for and they most directly provide the sort of counter-cyclical assistance that I think we need. So that is something that I think we all ought to do that isn't in the House bill. Wheat historically is very much disadvantaged in the current situation, and we need to bring it more in balance with other commodities.

Second, we believe that the support ought to be hooked to production, not decoupled from production, for a couple of very important reasons. One is that is the signal to producers. But second, there is a mechanism then to fully use the trade tools that we have negotiated, and we believe very strongly that we ought to use the trade tool that has been negotiated for this country, we ought not leave those tools in the tool box.

We advocate filling up the amber box, using all of the resources that our trade negotiators have negotiated for us so that we have at least a ghost of a chance of beginning to compete with other countries in the world market.

Let me say that I think what the premise of any farm policy really boils down to or comes down to is how we might answer a couple of very fundamental questions, and those questions are do we as a nation care if food is produced in our country? Or do we prefer

that food be produced somewhere else in the world and we import it simply because it's cheaper? It's a very fundamental question, and a farm policy needs to answer that.

And second, very closely related to that, if we answer that in the affirmative, as I think we ought, do we care whether family farmers and the family ranchers are the ones in production, and again, I think we ought to answer both of those questions in the affirmative.

There are a number of principles that I think are a part of this that, again, are in my written statement. I would like to refer you to page 5 of my statement where there are 3 fundamental core elements that NASDA believes, all the ag commissioners around the country ought to be a part of a new farm bill, and that I fully concur in.

The first one is counter-cyclical assistance; and the second one is cost of production based crop insurance, and more emphasis on that; and third that there needs to be more resources put into stewardship initiative and conservation kinds of things.

On page 6, this is the real guts of what I think needs to be in a farm bill, and there is a table there that I show listing the major program crops and what their costs of production are, and then the levels of support that ought to be provided and pegged to those costs of production. We believe that marketing loan rates ought to be increased and the increase ought to be based on the relative costs of producing those various commodities. That is a fundamental thing I think most people in this room—in fact we had a press conference earlier this morning, the major farm organizations agreed with these same three principles, including increasing marketing loan rates based on cost of production.

I have already mentioned, and I believe this very strongly, that we need to have a farm policy that uses the tools that have been negotiated for us in our various trade agreements. The marketing loan proposal that we have put forward fully utilizes the amber box capabilities that have been negotiated for us and we strongly believe that.

Let me spend just a moment talking about cost of production based insurance, because that too is an element of what we are proposing. I know that Congress recently dealt with this issue and I know, Mr. Chairman, that you are instrumental in inserting into the bill that was finally passed and signed about a year ago, a provision allowing for cost of production insurance. We're very thankful for that.

We believe that there needs to be more resources put into the development of those kinds of products so that they can be researched and developed more quickly and put out into the field, so we very much commend you for the efforts you have taken so far and would urge you and your colleagues to make this part of the new farm policy, as well, to put more resources there.

Finally, the third initiative, the stewardship initiative. We believe that there need to be more resources similar to what the Governor mentioned earlier, that is an area that there is substantial public support for. Let's make sure we capture some of that public support and provide the right kinds of programs so that farmers can utilize them, ranchers can utilize them to their economic ben-

efit, and let's make sure that those programs—and we're advocating a new one called the Stewardship Program—would be developed, that it be stayed focused and that it be largely incentive-driven. We think those are some very important components of them.

Mr. Chairman, the final comment I'd like to make is sort of an acknowledgment of the huge problem I think that you guys have in this Congress with respect to funding for a responsible farm program. Let me tell you that the NASDA farm bill proposal contemplated spending about as much money as we have been spending for the last three or 4 years. OK. That is going to put you in about that 25 plus billion dollars annual range. Since we adopted that we know that the budget resolution that was subsequently agreed to provides roughly about two-thirds of that in terms of funding.

That is what was prepared, and a number of us as commissioners were prepared to sit down with Members of Congress and have been doing that, and have been prepared to scale back our proposal such that it would meet those kind of budget constraints. That can be done. If we're forced to talk about only the blue lines on that chart we have got a very major problem, because I don't know how you do a meaningful counter-cyclical assistance by readjusting loan rates so that they work for us here in this state while at the same time putting more dollars into stewardship resources, conservation payments and simultaneously giving an extra boost to crop insurance with those levels of funding.

So while we acknowledge that that is a problem that you have, let the record show that NASDA, and I and all of the commissioners around the country are delighted and looking forward to being able to work with you to deal with the total amount of funding that is there, but if we're having to look at that smaller number we have got a major problem, and I think the issue that is before all of us is to make sure that that funding level gets increased to at least that original level that was contemplated in the budget resolution.

Mr. Chairman, that concludes the bulk of my remarks. Thank you very much for this opportunity to testify and for the leadership that you have shown on these issues.

Chairman CONRAD. Thank you very much, Commissioner Johnson. I just say this to you: Given the President's new budget submission, the rug has really been pulled out from underneath farmers, and the rug has really been pulled out from underneath writing a new farm bill in a very fundamental way.

As we analyzed the President's budget submission, the first thing that jumped out at us is exactly what is in this Wall Street Journal article this morning. We had not said much publicly about it because we had hoped that it was an inadvertent error, that there would be a correction issued by the White House in this intervening time. Clearly that is not going to be the case.

Apparently they mean what they have said in the mid-session review, and the implications of that are very significant, because as you know, the budget resolution in recognition of the inadequacy of current farm policy said you will have available from 2003 to 2011 an additional \$67 billion to write a new and better farm policy, and every dime of that is needed. As you know, what was in

my budget was an additional \$90 billion. So \$67 billion is in fact short of what we have been doing each of the last 3 years and what we will do this year with the Supplemental Appropriations Bill. For the President to now say, well, that money is not available unless you go out and take it away from somebody else, well, who is the somebody else that you can take it from?

There is no surplus left. You can't take it out of surplus. The only surpluses that are left are the trust funds for Medicare and Social Security. His budget plan already has us taking, over the next 10 years, if he gets his defense increase that he has now formally requested, if he gets that, the trust funds are already having \$500 billion taken out of Social Security and Medicare money to pay for other operations of government. So there is no surplus to go to. It's going to have to come out of education or defense or some other part of the Federal budget—\$67 billion.

I am the Budget Committee Chairman. I can tell you that puts us in a box canyon. I think anybody in this room who has been involved in this fight knows the truth of what I am saying.

It is critically important that the President changes his position here. If he maintains this position and he backs it up with a veto threat on using the resources that are reserved in the budget resolution for writing a new farm bill, we are stuck with the blue lines there. I just tell you, you can not write a decent farm bill with that level of resources. I wish you could, but you can not. You have a hard time writing a good farm bill, something that balances, loan rates between commodities, that is not disadvantageous to wheat. While I recognize that Combest-Stenholm is a move in the right direction, absolutely, it is a significant improvement over current farm policy. I applaud them for that. Congressman Stenholm is a very, very close friend of mine. Congressman Combest has been a very close ally of mine.

In fact at the last conference committee, as you know when the final amounts of money were available, he actually gave me two-thirds of the remaining money in the conference committee to help North Dakota. Now that is bipartisanship, I will be eternally grateful to Congressman Combest for the assistance he gave North Dakota in that conference committee. When we had done all of the work on providing for disaster assistance, for rewriting crop insurance, there was still between \$20 and \$30 million on the table, nearly \$25 million, and he gave me two-thirds of it for flooded acres, for help to people with flooded acres here in North Dakota. Now that was a gracious, generous thing for him to do. So these are my friends who have written this bill. Honestly I wouldn't write it quite that way.

I think all of you know what I would do. I would put my FITE plan in place, Farm Income and Trade Equity, because I really believe that is what is necessary. I mean if I am going to look somebody in the eye in North Dakota who is a farmer and he says to me, Ken, what would you do? What I would do is my Farm Income and Trade Equity Bill. I honestly believe that is the only thing that really levels the playing field out here between our major competitors and our producers, and it does. It levels the playing field to the extent we can under international law. But I also note we don't now have the resources here to write that bill and so we're going

to have to settle for less than the FITE Bill. I still believe that is what we should be doing.

Commissioner Johnson, we appreciate very much your statement here today, and I turn to my colleague for any additional comments or questions he might have.

Mr. POMEROY. I think, Roger, you have done a terrific job in uniting, from my knowledge, for the first time, a position across the commissioners of agriculture in this country. I think Congress gets themselves in trouble when they don't spend enough time really focusing on what more immediately involved officials on the ground are dealing with. The agriculture commissioners of this country are the experts in agriculture policy-state by State by State, and if you can couple together a consensus across them on counter-cyclical support, production based support, that are really applied to supporting family farmers, that ought to be a framework that Congress just takes and runs with.

As to a word on the budget dimension of all of this. We are only 90 days, little more than 90 days after the debate on the President's budget plan. I didn't support it, but support from farm states was critically linked to its enactment. There wasn't one word said in the Ways and Means deliberations on that budget plan that it meant no more money for agriculture, and in fact it was part of a plan that provided the red line plus zone so we could build a good farm program.

To circle around in less than 3 months and kick the teeth in for those farm state legislators that helped pass that plan is really astounding. It's an astounding development and one I hope we can overturn, ideally by negotiating the administration into a more supportive position, or as a last resort trying to legislatively overcome their opposition, but that will be extremely difficult.

Chairman CONRAD. Thank you, Commissioner Johnson.

Chairman CONRAD. I will now call the next panel. We have Robert Carlton of the North Dakota Farmers Union; Eric Aasmundstad President of North Dakota Farm Bureau; Keith Trego Northern Great Plains Working Group; Gene Harris, President of the North Dakota Stockmen's Association; Allan Skogen, President of the North Dakota Grain Growers Association; Lloyd Klein, President of the National Sunflower Association; and Craig Halfmann, President of the Red River Valley Sugarbeet Growers Association; and Clarissa Mandan of the Intertribal Agriculture Council. I would ask all of them to come to the witness table if they could. Hopefully we have sufficient chairs and sufficient space. We really have, I might say, a very distinguished list of witnesses here this morning.

Because of time constraints, I have a meeting, a lunch meeting with the Governor and the President of North Dakota State University at noon, and so we are going to try to stick within the time committed to the hearing, but if we run over a little we're certainly going to do that. We have got a little bit of space in there, because hearing from these witnesses is critically important, given where we are in the consideration of a new farm bill, so I want to welcome all of these witnesses and ask Mr. Carlson to proceed.

**STATEMENT OF ROBERT CARLSON, PRESIDENT, NORTH  
DAKOTA FARMERS UNION**

Mr. CARLSON. Thank you, Mr. Chairman. Thank you for the opportunity to be here and for holding this hearing in North Dakota, which was something I was hoping that the Senate Agriculture Committee would do so that more producers get an opportunity to speak on an issue that is as important as the new farm bill which is, as we have all said and all know, of vital importance not only to the farmers in the state but to the entire state.

I am going to be brief. We have appeared many times before your committees, both the House and the Senate Agriculture Committees, with our proposals. We have held, our organization has held many trips to Washington D.C. We have sent over the years in opposition to the Freedom to Farm bill many people, possibly a thousand people in Washington, D.C., to the Rally for Rural America and so on. All of those people have been there to express their need for a new farm policy and for a change in the current farm policy, and that still exists, a desire to see a new one with a stronger safety net, one that is based on production, not decoupled payments and targeted to family farms.

We were strong proponents of the FITE bill and remain strong proponents of the FITE bill. If our trade agreements are what is hampering our alternatives in agriculture and forcing us to either come up with a bunch of money to give to farmers or else see our agriculture destroyed by competitors. Competitors who are not more efficient but competitors who have deeper pockets, then it just seemed reasonably logical and sensible that we fight back so to speak by doing very much like the Europeans do.

Unfortunately we do not have a society ready to spend that kind of money on agriculture. Our farm program, and I am going to be very brief since we have presented this previously in D.C., really has four components.

The first and most important part of it is what some other people have talked about here, and that is raising loan rates based on a percentage of the cost of production to an equity status with oilseeds. We have talked about oilseed loan rates representing approximately 80 percent of full economic cost of production of raising wheat and the other feed grains to that level as well.

I think in light of the budget crunch that we appear to be facing, and I am sure that that has not fully sunk in to us yet, although our Washington office is very concerned about it. I would, Your Honor, propose that this new farm bill, whatever it is, and if there is a window of opportunity that says we need to get a bill passed and passed quickly in order to stake a claim to the contingency funds or reserve funds available for agriculture, we should do it. But that the bill should contain options at least and discretion to implement some new creative programs.

We are talking about a 10 year farm bill here and it doesn't seem our history of figuring out that the next farm bill is the answer to all our problems really lasts very long. The 1996 farm bill worked for about 1 year and then we were back asking for more money.

So when we look ahead 10 years, who knows, a few years down the road we may want something new. I think we have got some creative ideas in the options that we have presented to your com-

mittees, a humanitarian reserve to take about 533 million bushels of wheat for a very limited non-commercial reserve, buy it now when prices are low, set it aside to give to the hungry around the world when prices get higher, because the fact is when prices are higher the money isn't there to buy the bushels of grain for giveaways.

Why not have an energy reserve consisting of at least 600 million bushels of grain. For every hundred million bushels of corn that you get rid of or reduce the reserve by, not the reserve but the carry-over by, prices go up about a nickel. So if you took 600 million bushels of corn, you know, according to his rough calculations about a 50 cent increase in the price of a bushel of corn, that is pretty much cost neutral.

We'd urge there be authority for a voluntary set-aside, incentive based set-aside, capped, maybe not over 20 percent of a farm's tillable acres, and have authority to do that so that if huge over-production should occur that we can have a way to deal with it. Now I will recognize that probably couldn't work very well for the crops that we raise and similar crops raised just north of the border but would it work on corn? I think some study needs to be done there. We're so dominant in the corn export market and so dominant in corn production that perhaps we could do some set-aside, see some market price cuts at very low cost to the government.

And finally targeting. We have had a study just completed, actually by this university. I will submit a copy to you for the record. It has a great deal of information on various levels of farm gross income by farm size category in North Dakota, and I think from it one could design a program that really would direct benefits to that midsize commercial farm. With that, thank you, and I'll hopefully leave some time for others to talk.

Chairman CONRAD. Very good. Thank you very much, Robert. And we'll go next to Eric Aasmundstad, the President of the North Dakota Farm Bureau.

Welcome. Thank you so much for being here.

#### **STATEMENT OF ERIC AASMUNDSTAD, PRESIDENT, NORTH DAKOTA FARM BUREAU**

Mr. AASMUNDSTAD. Thank you, Mr. Chairman for having this hearing in North Dakota. We have heard quite a bit this morning about how important agriculture is in North Dakota, but I would like to make a point how North Dakota agriculture is very, very important though to this country as a No. 1 producer of 11 different crops. There is probably not another state that can say that so we have a very important role to play.

I have five or six points I want to make that are very, very brief because I know there are people in the audience that definitely would like to have a word, and I think probably they have more to say than any of us up here do. One I would certainly say in any new farm bill proposal that we agree with balancing the loan rates. We have to do that. There is no reason that wheat is so disadvantaged as compared to soybeans. We have to rebalance the loan rates so that we don't distort planting, we don't want to artificially distort planting of any given crop just because of loan rates.

One of the best examples we have is soybean production in North Dakota. In 1995 there were approximately 660,000 acres of soybeans seeded in this state, last year there were about 1.9 million. And conversely in that timeframe wheat acres dropped by 1.12 million acres, and barley production is cut in half. Now the loan rate on soybeans isn't the only reason that happened but it's one of the major contributors. We certainly do not think that farmers should be planting for the program, they should be planting for the market. And that is not happening with the current loan structure we have.

Also in conjunction with rebalancing loan rates we think it's important farm rates, decoupled fixed payments such as AMTA payments, energy payments, give an emphasis to production to provide different cropping machines and have more diversified farming operations. We think that is very, very important. Here again I guess we have to part ways I guess with the comments of Mr. Carlson. We are opposed to agriculture reserve. Our membership is very, very clear on that issue and until our membership changes that is our position, that we're opposed to a reserve and we have some very grave reservations about any supply management. We believe if we cut production the rest of the world will pick it up and we'll lose even more market share.

One of the other points I'd like to make is we certainly have to re-authorize our export programs and increase our funding. Nothing is ever gained by a trade war. We realize that and we realize we have to stand by our commitments, but by golly, we're in one, and we're the only ones that don't know it—and I agree with you, Senator, wholeheartedly, many times when I have spoken with you, you have made the comment that we have to go out and get our markets the old-fashioned way if we have to, and that is buy them. I couldn't agree with you more. And we certainly have to continue funding and increase funding for any export programs. Also when that is done our trade negotiators can no longer be asleep at the switch and compromise our agriculture markets for other sectors of the economy. Our trade negotiators have to be given specific instructions on what agriculture needs and what we expect. Those trade negotiators have to go into the negotiations realizing American agriculture can no longer play second fiddle.

One of the other points I'd like to bring up is regulatory reforms. The current farm bill spoke greatly to regulatory form. The reforms that we have seen such as the Food Quality Protection Act have been more onerous for producers than not. We certainly think any regulatory reforms have to be based in sound science, and have to, when we discuss the benefits to society we have to re-examine the minuscule risks associated with some of these things and re-examine where we're at to make sure that our producers are not affected.

Also we believe LDP should be continued. We believe that producers should have the opportunity any time within the year after the crop is planted to lock in an LDP price. And then the determination of bushels will be, yeah, after the crop is harvested payment will be paid but they should be able to lock in that price any time during that year.

Now I come to a point that I view quite a bit as probably like going to the dentist I don't necessarily want to go there but I have to. And that is the conservation programs. Sorry, buddy. We will support conservation in the Senate, as long as they are just that, as long as they are voluntary incentive based programs. We certainly don't want to see anything come through the pipe that is compliance based, such as Swampbuster, Sodbuster. We also believe that when these conservation programs are passed down for the implementation, more control has to come to the states. Local people can solve local problems a lot better than someone that is not connected to the area. These things are a lot more acceptable to us and our members than the one-size-fits-all approach that happens far too often.

I'd like to take a little more time and deal with an issue that we think is very, very important in any new legislation that comes out. Everything I have talked about and everything everybody else has talked about to this point has dealt with price protection, market development, competition, and gaining public acceptance for more agriculture spending than in the former conservation payments. And those things are all well, they are all crucial, vital. But we have left out one thing. And that is crop insurance.

Now to producers in the northern plains and southern high plains or any other part of the country that faces radical climactic changes and severe weather, crop insurance is very, very important. Now we realize there are attempts made to reform crop insurance and we thank you for those efforts but more is needed. North Dakota Farm Bureau along with nearly every other commodity group in the state is supporting a cost of production insurance pilot being implemented.

Now we know it doesn't have to be done in every state right away—we have to walk before we can run. But if we do not address this issue and give producers a way to re-capture their investment, not insure for profit, just to make sure they have a vehicle to get their investment back so they can go again the next year. A lot of these other things don't matter.

Counter-cyclical safety nets, whatever they are, whatever proposal is adopted by Congress, are going to fall short of that goal. Counter-cyclical safety nets protect price and price alone. We agree they are needed but we also think that we have to have a way to ensure the producer's bottom line on a whole farm basis. Now we have been working with North Dakota Mutual Insurance Company for quite some time in the development of a product that would do just such, what I have talked about. We're confident that we have a product that we can offer up that will, one, be affordable, it will be effective, and it's what the producer is going to need, and it's going to be responsible to the tax paying public, and that is very important.

Now again we're aware that contracts have been awarded to develop such a product, and in meetings we have had with the company it has contracted to do that, we feel they are going to fall far short of what producers need. We feel if we were allowed to work with you in Congress, those of us in North Dakota that are pushing this and supporting it, can certainly push a program through and develop a product that will do all the things I have talked about.

In developing this product we have structured it in such a way as to remove incentives to cheat the system. We all know what is going on, we have all seen it. Small producers who don't have the ability to spread risks with multiple crops, or spread their farm operations over large geographical acres will be afforded the same treatment as producers that have that ability.

Everyone will be treated the same. Everyone starts from zero. It's a very simple product, it's a very effective product and it's certainly something that all of us in North Dakota support. Now another point about it, is that because it's not based on price or yield, there is no WTO implications. I think we have something here we certainly could work with. We think it's a very, very important component of anything that is done. We're not asking for it on a large nationwide scale off the bat we are asking for a small pilot project maybe in three or four states, probably not every county in the state, but it's something we certainly feel has to be worked on; that whole farm cost of production insurance is an absolute necessity in the future and we'd certainly welcome the opportunity to supply this program further to the Senate Budget Committee or Senate Agriculture Committee or anyone else in Congress willing to listen to us. With that I will end.

Chairman CONRAD. Thank you very much for your testimony. Let me say I included language in the last crop insurance reform bill that permits precisely the kind of product that you have described. The problem will be to get it adopted, and I think there is an understanding of some that there is a very dramatic element to this. I can tell you there was substantial resistance to getting that language in the Crop Insurance Reform Bill. So more education will be necessary to get it accepted.

Next we're going to hear from Keith Trego representing the Northern Great Plains Working Group.

#### **STATEMENT OF KEITH TREGO, NORTHERN GREAT PLAINS WORKING GROUP**

Mr. TREGO. Senator, Mr. Chairman, thank you very much for inviting me to speak this morning. It certainly speaks to your interest in conservation and the farm bill, and I was gratified to hear Commissioner Johnson's remarks and the Governor's remarks about the importance of conservation. I thought that I was going to be the only panel member to speak totally about conservation. The couple things I have had to say would differ slightly from my friend Eric.

I will be very specific about the things that we think are important. Conservation provisions. Our highest provision or our highest priority for conservation provisions is reauthorization of Swampbuster in its current form. We think Swampbuster is critical to wetland protection in this part of the country and across the entire country.

Wetlands also provide societal benefits in addition to wildlife benefits, not the least of which is flood water retention which is a pretty unique relevant issue in North Dakota these days. We think Swampbuster is a fair contract between producers and the rest of the public who is willing to pay for natural resource protection through the farm bill. And there is no question that from a public

policy perspective protecting wetlands or any resource is far cheaper than destroying them and then having to pay money to restore them in the future. We certainly support the wetlands reservation aspects of the Conservation Reserve Program and support the Wetlands Reserve Program. Both of these are voluntary incentive based programs which provide compensation to farmers for wetlands that have a cropping history.

In addition to that we would like to offer another suggestion for thought that is a bit different than what is in the current farm bill. We have what is called a Farmable Wetlands Pilot Program that is available now. It also relies on wetlands having a cropping history and we'd like to see that program be revised, first of all have more flexible enrollment criteria so more farmers can participate, and we look at allowing to enroll wetlands without a cropping history in crop land. Many people that would like to avail themselves of that program are not able to because of the cropping history criteria.

The second highest priority we have is retaining wild life as a coequal component of the farm bill conservation programs. That was a vast improvement in the 1996 Arm and we'd like to see that retained.

We'd like to see CRP continued and see it expanded to 45 million acres. This is a popular program. It benefits farmers, taxpayers and wildlife. The predictable income provided by CRP has definitely helped keep some farm families on the land. The abundant wildlife provided by it has diversified income for farmers and it certainly provides new income to merchants and rural communities. We support reauthorization and strengthening of Sodbuster and we'd suggest that Sodbuster be tailored from its current state in the 1996 farm bill and that its purpose in the new farm bill would be to protect our remaining grassland communities.

We would further suggest that if a regulatory approach not unlike Swampbuster where native sod is broken after enactment of a new farm bill that the producer would suffer loss of farm bill payments. But on the flip side of that, complimentary to Sodbuster we're very supportive of the grassland reserve concept that has floated to the surface and is in the House Task Bill. This is a voluntarily program and it provides compensation to farmers and ranchers for retention of native and restored grasslands. In fact our only suggestion for improvement of GRP would be that it allow landowners more contract options to choose from, up to and including perpetual easements. And we do support continued authorization and increased funding for the Wildlife Habitat Incentive Program, we think that was a good element of the 1996 farm bill. I'd specifically like to emphasize the importance of productive incentive based programs.

GRP is an example of that, providing payments for wetlands without a cropping history would be an example of that as well. Too many of our private land conservation programs both in the farm bill and I am sorry to say even outside the farm bill in groups like the one I represent, actually reward and in some situations encourage poor land stewardship. We have far too few programs that reward farmers and ranchers for retention of wetlands, grasslands and other natural resources and we have a great opportunity to

remedy that in this upcoming farm bill. We simply need to do more to pay people to keep those valuable resources out there.

Let me conclude by emphasizing the cooperative bond between groups like the one I represent and the agricultural community. We believe we share a lot of common values, among them the belief that producers are best served by having a large variety of conservation programs to choose from so that they can select the ones that work best for them, and a belief that a producer should be fairly compensated for implementing and maintaining conservation programs on their land. There has to be fair compensation for that. We feel very strongly about that. And we certainly support family based agriculture. We believe that is consistent with the concept that land stewardship is most assured when farming and ranching are as much a lifestyle choice as they are a business choice.

With that I'll conclude. Thank you very much, Senator Conrad, for allowing us to participate, and we'd be happy to work with you, look forward to working with you and your counterparts in the agriculture community as we develop the farm bill. It's critical to farmers and resources and North Dakota's future.

Chairman CONRAD. Thank you very much. We appreciate your testimony. In the interest of full disclosure, I have to say to you I agree with very much of what you said but I have never been a supporter of Swampbuster as it's written. I don't think Swampbuster was sold—I don't know how to be delicate about this but I don't think it was sold on an honest basis when it was first sold to Congress.

I have gone back and reviewed the record and while I believe very strongly we have to preserve wetlands, no question, that is a national interest, I deeply believe it should be done on an incentive basis. Because I think to do otherwise simply alienates the people that we need to help us preserve that wetland resource, and those wetland resources truly are a national treasure. They are a North Dakota treasure, but it is one of those aspects of farm policy, the Swampbuster provisions as written, that cause real negative reaction to other conservation policies, and I have seen the deep anger in some people who are wonderfully even-handed, cool-headed people, become apoplectic in the face of—apoplectic, that is a big word that means really mad when faced with circumstances. I can tell you back 2 years ago when we faced such terrible flooding in the Devils Lake Basin I went out to farmsteads and saw situations that just made no sense at all not because of the Swampbuster law as much as the regulations implementing that law.

That hamstrung the intelligent management of water in a flooding situation. I was with farmers who want to support conservation, had strong environmental values and I tell you they were so upset, honestly, they were just shaking with anger because they had a circumstance in which they were precluded from using their land. I know there are ways of getting a change but I just have to say that to you in the interest of full disclosure.

Mr. AASMUNDSTAD. When you are talking to Keith about things, don't worry about being delicate. He has dealt with me enough now that delicate doesn't sink in now.

Mr. TREGO. That is a fair point.

Chairman CONRAD. I apologize for taking this time but I just had to say that. Gene Harris is with us. He is President of the North Dakota Stockmen's Association.

**STATEMENT OF GENE HARRIS, PRESIDENT, NORTH DAKOTA STOCKMEN'S ASSOCIATION, BISMARCK, NORTH DAKOTA**

Mr. HARRIS. Thank you for including the Stockmen of North Dakota in the farm bill hearing. I'd like to open with a quote that "education gives you knowledge, knowledge gives you power, but it's experience that gives you the wisdom to use them wisely".

Mr. Chairman your wisdom is rewarded every time you are re-elected. The members of the cattle industry as well as other segments of agriculture have more experience managing and conserving land and water than any other segment in America. It's time we reward that experience and that wisdom.

I'd like mainly like to just address the conservation title in the farm bill, more explicitly the EQUIP Program. We need to increase the funding levels in that program. We have to strip the priority areas from those. We'd like to see and include a noxious weed control program and an overall conservation program. Leafy spurge in this state is still out of control. It would be a great way to bring that under control. We need to allow for best management practices when projects exceed the financial limitations of the producers. When the NRCS addresses an animal feedlot situation and works up a plan for EPA they need the flexibility to implement less than a hundred percent of that plan so it becomes affordable for the producer, so we get somewhere instead of nowhere. We need flexible terms of 1 to 10 years instead of the current situation. Additional technical assistance in that area as provided in the house version of the farm bill, and any incentive payments program must be tied to a working operation. We have seen what CRP has done to rural communities in North Dakota and we need to keep working lands working.

The beef cattle industry is very supply and demand sensitive so we must not pit one commodity against another or guarantee one producer's profitability at the expense of another. The farm bill should discourage inefficiency whenever possible.

One of the things that North Dakota Stockmen's believes we need is country of origin labeling. It's one of the purest concepts there are, and its time for implementation has come. With increasing world trade, with disease outbreaks we have seen across the country, across the world, not in this country, there has never been a time that is more important to our consumers than to know where their food comes from. Although the concept of labeling is a great one, implementation seems to be a problem as we have witnessed in the house debate. North Dakota NDSA has the chance to bring all state affiliates of the National Cattleman's Beef Association together to form a consensus and a comprehensive plan to implement country of origin labeling. When that comes about, hopefully prior to the end of this farm bill—

Chairman CONRAD. Did you get the Texas boys to go along with that?

Mr. HARRIS. Absolutely. In addition to the labeling it's becoming more important that we do not allow the U.S. market to be a

dumping ground for foreign beef, especially at a time when we may over-produce ourselves. Quotas and tariffs must be maintained so that we assure we do not become the dumping ground for the world.

I'd like to just close, Mr. Conrad, with, as a farm bill comes together I hope you remember the contribution that this segment of the American population makes to the beauty, the open spaces, the clean air and water and abundant wildlife for this nation, all the while providing American consumers, as well as the rest of the world, an abundant safe food supply.

The beef cattle industry of North Dakota appreciates your support and the time to testify today. And I would comment to you that Dale Moore, Chief of Staff for Cattlemen is a close friend of many North Dakotans through his work through the National Cattle and Beef Association and we will contact him and try to put pressure in those areas to bring back the funding levels in support of this farm program.

Chairman CONRAD. Thank you so much. I hope there is one message that comes out of this hearing this morning. We can not be in a situation in which that \$67 billion is taken away from us or we're told to go take the money away from something else in order to secure the money that is provided in the budget resolution. That would be an absolute disaster for American agriculture, and an even bigger disaster for North Dakota, and I tell you, there is nothing that could be more clear.

As I said, when we did the analysis of the President's mid-session review, we of course immediately picked up the language that was there and we knew the implications of it. We hoped against hope that it was some kind of mistake, and through back channel communications tried to get the White House to back off that position and remove that language. We said nothing publicly for over a week. In fact I said nothing publicly until this morning, until this story appeared in the press, because now we're left with no choice but to confront this head on, but this has got enormous implications obviously for writing a farm bill.

Gene, I thank you very much for being here this morning and for your hard work on country of origin labeling. I am absolutely convinced the farm bill is by far the best vehicle to actually pass that, and unless we get together a consensus within the agriculture community itself we're not going to get it. We ought to get it. It's a travesty I think that the House rejected the proposal. I am evaluating whether or not we should bring it up on the House floor as an amendment or whether we should wait until the Senate and try get it into the bill and then hold it in conference committee. It's a legislative strategy call.

I would welcome your counsel on that, but in the mean time you work on forging a better consensus within the agriculture community itself. It's very, very important and I commend you for it.

Mr. HARRIS. Thank you. We just feel the time has come. Disease outbreaks across the world. No better time to bring it together than now.

Mr. POMEROY. If you know where your t-shirt is made you ought to know where your t-bone comes from.

Chairman CONRAD. Next we have Allan Skogen, President of the North Dakota Grain Growers Association.

**STATEMENT OF ALLAN SKOGEN, PRESIDENT, NORTH DAKOTA GRAIN GROWERS**

Mr. SKOGEN. Thank you, on behalf of the thousands of wheat and barley producers in North Dakota who are very concerned about the future of the farm policy and the consequences and implications of your budget committee actions as well as those of Congress, and the consequences on their policies.

I thank you for holding this hearing in North Dakota today. I believe it's very critical. As well as my duties as the President of the Grain Growers Association of North Dakota, I am also a member of the National Association of Wheat Growers Board of Directors and I chair the Domestic Policy Committee and serve on the National Barley Growers Association Board of Directors.

These organizations that I speak for today represent a very diverse membership. Wheat, for example, could be considered the most important crop in the U.S. Within our organization we have a huge amount of experience, not only in the wheat business, but our members also have a great deal of experience raising most if not all crops grown across the U.S. We understand the needs and the comparative economic and production variables of these crops. This experience was very valuable to us as we worked diligently these past 2 years developing a farm program that would provide an equitable and a reasonable level of support and stability for production of agriculture for all crops.

We had several goals in mind when we began the process of shaping the next farm bill, such as to protect the flexibility and the ability of farmers to make management decisions based on market signals and good economic and agronomic principles; to resource equity among commodities; to provide additional support when factors beyond the control of farmers force prices lower and threaten disaster; and to enhance our competitiveness in the world market; and to improve the overall economic viability of U.S. agriculture.

We found strong support for our farm policy containing these three components: A fair and equitable marketing loan program that does not influence producer planting decisions; 2, a decoupled fixed payment, available to producers to help cover predictable and ever-increasing production costs and stabilize his ability to receive adequate financing; 3, a decoupled counter-cyclical safety net triggered when prices fall below certain support levels.

We developed this plan containing these principles which was adopted by the National Association of Wheat Growers and the National Barley Growers Association, as well as several other commodity and state organizations from around the country. This plan ultimately proved to be the model for the bi-partisan 2001 Farm Security Act, which passed the House Agriculture Committee in July and will be considered on the floor of the U.S. House of Representatives shortly.

Passage of this bill is very important in the House. However, I am here to relay the message today that while it is our intent in the Senate to improve the loan rates and trigger prices for wheat and barley, and we're working very diligently to do that within the

framework of this plan, and as you know, while North Dakota this year I believe will be the leading state of production of wheat and always is the leading state of production of barley, we have got a crisis on our hands particularly in barley.

It's a commodity whose very life is endangered, our crop in our state, and competitive and equal loan rates is a must to save that crop in our state. But within the framework of this plan as we attempt to raise the target prices and trigger loan rates for wheat and barley we believe swift action and support in the Senate for a similar bill is extremely critical. Anything less than a broad unified support and passage of this proposal or one similar could really prove disastrous for North Dakota producers.

As the attached documents to my statement reveal, this plan provides significant increases, and we're talking about increases above the most recent support we have gotten from Congress, as well, in income protection for all program crops we grow resulting in increased economic benefit to the North Dakota economy. This proposal is flexible, it's fair, it's fiscally responsible and it's easily administered. It is sensitive to individual crop prices and it leaves the management of the farms in the hands of producers.

We have a strong commitment to global trade and increased market share of our agricultural production and believe that the most important first step in achieving this is a strong domestic policy that maintains the strength and viability of our nation's producers so they're able to compete in this market. We have a lot to lose.

While proposals forwarded by groups outside of production agriculture or representing different regions of the country threaten to erode support for basic production agriculture and/or migrate program dollars to other regions of the country, however the greatest threat may be the growing budget concerns as you have currently expressed filtering across the land. It was agriculture support that was first to be targeted when budget slashing was deemed necessary in the mid 1990's, but we in production agriculture didn't seem to enjoy the economic turnaround that resulted. We can not afford to be the target in 2001.

It is our request today that your committee works hard to retain, at an absolute minimum, the full \$170 billion currently budgeted for agriculture programs and that you support swift passage of a farm bill in the Senate that protects the aforementioned methods and principles of sound domestic farm policy, and I pledge to you that we will do everything in our power with the administration, as everybody here will, to convince them that this is a must to retain this money within the budget to sustain viable agriculture.

Thank you for your efforts in the U.S. Senate on behalf of production agriculture in North Dakota. And I look forward to answering any questions you, you or your committee may have.

Chairman CONRAD. Thank you, Allan, and thank you for all the work you have done as well. We really do deeply respect what you have done. It's an enormous contribution. It is one thing, as you know, to talk about what we would like to have, it's another thing to try to shoehorn it into what is available. That is a different deal, and you know what I have said to you privately is the only fault I would ascribe to you is you didn't ask for enough in Washington. We know the negotiation game is a tough game in that town. Very

tough game. But I think working together we boosted the resources substantially and as I look up and down this table, so many of you played a role in getting these resources.

Bob, you certainly played a key role. Honestly, I believe we would have never made this progress, without that rally that you had last year. You know, the very next day Bob Kerrey and I were made conferees on that bill. We were not conferees before that, on the disaster bill for last year and the crop insurance bill, and the fact that we were conferees tipped the balance in the conference to support for disaster assistance bill that was far more generous than what was going to happen otherwise. But I tell you, we are in a very different situation today than we were 10 days ago because of the President's mid-session budget submission, and this is it guys. We've got to get into the harness and pull together and get this thing turned around or the resources to write a bill like the one you have described, Allan, are gone. I mean that is how serious this is. And I have to be direct and honest about this because that is the reality that we confront.

Congressman Pomeroy has another obligation. And he is going to—are you going to be leaving us at this point? If you want to make some summary.

Mr. POMEROY. Thank you, Senator, and thank you for this hearing. I think it is an extremely important one, especially in light of the budget issues that are breaking while this hearing is held. I also wanted to commend Allan Skogen, my fellow Barnes County boy. He really has quite a nationally significant role in putting together a price support mechanism and as the Governor alluded to, basically the work product that Allan Skogen forged and later came to be the position of the North Dakota Grain Growers and largely picked up by the U.S. Wheat, that that is the format for the House Agriculture Committee action, and in the end it's about price support for farmers. I may differ slightly with the strategy for building it, but it gets the job done and I am going to be voting for it in the House and hoping to keep the progress moving in terms of constructing the bill. So I commend you for your bill. And thank you, Mr. Chairman.

Chairman CONRAD. That you so much for being with us. Now we turn to Lloyd Klein, President of the National Sunflower Association. Lloyd, welcome. It's good to have you here. Please proceed with your testimony.

**STATEMENT OF LLOYD KLEIN, PRESIDENT, NATIONAL  
SUNFLOWER ASSOCIATION, BISMARCK, NORTH DAKOTA**

Mr. KLEIN. I'm going to summarize my comments. You have a copy. Currently I am President of the National Sunflower Association. In addition to that association I am also appearing on behalf of the U.S. Canola Association and producers of other minor oilseed crops. And I appreciate that and I might say I appreciate other organizations who have allowed these witnesses to speak for them here today very much, because obviously we have got a time restriction here so it's good of you to be able to speak on their behalf and wonderful of them to ask you to do it.

I would like to commend you for holding this hearing and for your leadership on agricultural issues in Congress. North Dakota's

farmers and rural communities are well-served through your senior position on the Senate Agriculture Committee as well as your Chairmanship of the Budget Committee.

Minor oilseed producers and our industry partners look forward to developing a new farm bill that continue the positive aspect of the current policy, but corrects its shortcomings. We strongly support maintaining unrestricted planting flexibility and prohibiting participation of oilseed crops in acreage reduction programs and reserves. However, we also support a multi-year approach to stabilizing farm income rather than relying on ad hoc emergency assistance.

Minor oilseed crops are generally supportive of being included with soybeans as program crops under the next farm bill. However, under any new program, the terms and the amount of support provided must be balanced and equitable. It is essential that minor oilseeds maintain their competitiveness for acreage under the marketing loan program. Each of our small crops must attract acres to preserve industry infrastructure or to expand to meet growing demand. A situation I think very similar to what Allan was talking about with the barley. A farm program that reduces marketing loan levels in order to raise decoupled income support may increase overall benefits, but it could also result in acreage losses for crops that cannot afford it. For this reason, if required to choose, minor oilseed crops would strongly favor keeping loan rates at current levels rather than shifting to programs that provide decoupled income support.

I would like to briefly describe the benefits of minor oilseeds that, together with the marketing loan, have sustained production of these crops under the FAIR Act. Many North Dakota farmers include sunflower and canola in rotation with wheat and other grain crops to enhance yields, reduce the prevalence of disease, and improve conservation management. Minor oilseeds have also proved their value as alternate crops during periods of sustained low grain prices. Also, research is producing varieties of sunflower and canola with higher-value oil characteristics, and biotechnology holds the promise of introducing traits in these crops that can open new markets. These diverse benefits clearly warrant efforts to ensure the continued viability of minor oilseed production in this part of the country.

I would now like to comment briefly on our position on commodity support programs in the next farm bill. Minor oilseed organizations have worked closely with the American Soybean Association to develop consistent positions on domestic farm policy issues. We recognize that Congress treats oilseed crops in a similar manner, and that soybeans comprise over 90 percent of U.S. oilseed production.

The oilseed position of farm programs was presented at a hearing by the Senate Agriculture Committee on July 12. We support establishing current oilseed loan levels as floors rather than ceilings, and allowing loan rates for other crops to be re-balanced upward to reflect historical price relationships. We support establishment of fixed, decoupled payments for oilseed producers that reflect the relative value of oilseeds and other program crops, with payments based on recent historical acreage and yields. Finally, minor oilseed

producers support development of a multi-year counter-cyclical income support program to replace the ad hoc emergency oilseed payments required annually since the 1999 crop.

I would like to briefly comment on the farm bill reported by the House Agriculture Committee prior to the August recess. In contrast to the positions I have outlined, the House bill sharply reduces oilseed loan rates rather than rebalancing loan levels for these crops upward. It established fixed payments and target prices for oilseeds at levels that are not equitable with other program crops. And it applies outdated payment yields to both of these income support programs, which disadvantages oilseeds and other crops that have significantly increased productivity since the early 1980's. Enactment of this legislation would result in reduced support for oilseeds and a decline in oilseed production as producers build bases for crops expected to receive higher benefits under future farm bills.

Minor oilseed organizations appreciate the difficulties facing the Budget Committee as well as the Agriculture committee as the Senate begins drafting new farm legislation this Fall. We have witnessed the growing debate in Congress over the incredible shrinking budget surplus since enactment of the Administration's tax cut only 3 months ago.

We know that the additional funds provided by the Budget Committee for writing effective long-term farm legislation are in jeopardy as a result of the reduced revenues and rising outlays for other programs.

We earnestly hope enough Members of Congress realize that production agriculture is too important to be short-changed in the budget process. The needs of our industry for additional assistance due to low crop prices and farm income in each of the past 4 years have been only too clear here in the countryside. We look to you, Senator Conrad, and to your colleagues on the Budget and Agriculture Committees to place these concerns in perspective so the next farm bill can reflect sound policies for the future of U.S. Agriculture.

With that, thank you for the opportunity to appear.

Chairman CONRAD. Thank you very much. We appreciate your testimony.

Next we'll hear from Craig Halfmann of the Red River Valley Sugarbeet Growers Association. We have a lot of presidents here today, don't we?

**STATEMENT OF CRAIG HALFMAN, PRESIDENT, RED RIVER VALLEY SUGARBEET GROWERS, FARGO, NORTH DAKOTA**

Mr. HALFMAN. My testimony will be more of a condensed version. I will submit a detailed version for the record. We deeply appreciate the opportunity to testify today. It is reassuring to know someone who chairs the important Senate Budget Committee is also a champion for agriculture and rural America and who understands the Federal Government's role in production agriculture.

I am Craig Halfmann, President of the Red River Valley Sugarbeet Growers Association I grow sugarbeets at Stephen, Minnesota, and am proud to speak on behalf of our region's sugarbeet farmers, processors, and factory workers. North Dakota State University

has estimated that this industry contributes over \$2 billion worth of economic activity to North Dakota and Minnesota.

Sugar prices to farmers began declining in 1997, plummeted further in 2000, and are now at 22-year lows. Since 1996, 17 beet and cane processing mills have closed and others threaten closure. The nation's largest seller of refined sugar is in bankruptcy.

Last year for the first time in nearly twenty years, a significant quantity of sugar was forfeited to the government because of low prices. That sugar is overhanging the domestic market. Additional forfeitures are likely unless prices recover.

American consumers have received no benefits from low prices for sugar. In fact the giant food companies have continued to raise retail prices for sugar and sweetened products.

Trade problems are at the core of our oversupply situation. The government can no longer limit sugar imports sufficiently to support prices and avoid sugar loan forfeitures.

WTO and NAFTA agreements require the U.S. to import as much as 1.5 million tons of sugar per year, essentially duty free. That's roughly 15 percent of our consumption. We must import this foreign sugar whether we need it or not. And Mexico wants more—they are disputing NAFTA sugar provisions and demanding unlimited duty-free access to the U.S. market?

To make matters worse, U.S. border controls are being circumvented by clever schemes and trade agreements.

Here are two examples: A sugar syrup, called stuffed molasses, concocted solely to circumvent our import quota, continues to enter through Canada, and from other countries, despite a U.S. Customs Service ruling to stop it. Second, the NAFTA reduces the so-called second-tier tariff on Mexican sugar to zero by 2008. Second-tier entries from Mexico have occurred and virtually unlimited amounts are possible.

We ask Committee members to support Breaux-Craig Senate Bill S. 753 which would fix the stuffed molasses issue and other quota circumvention schemes and to support Administration efforts to negotiate a workable solution with Mexico.

The policy path we are recommending can be effective only if the U.S. regains control of its borders, through resolution of the stuffed molasses and Mexican access problems. The policy that we recommend has several basic elements: Continue the non-recourse loan program.

Be in full compliance with WTO and NAFTA import requirements.

Operate the program at little or, preferably, no cost to the government. We are committed to earning our revenues from the marketplace rather than from government payments. Given the evaporation of government surplus estimated by CBO and OMB which threatens the availability of money for all farm programs, it reinforces our industry's decision to pursue a no-cost program.

Implement a sugar inventory management program. It would balance domestic sugar marketings with domestic demand and import requirements; would provide stable market prices at a level sufficient to avoid sugar loan forfeitures; and can be administered by the government at little or no budgetary cost.

An inventory management program for sugar can be designated in a manner that retains planting and production flexibility for farmers and processors; does not encourage producers to increase marketings to maximize market shares should the controls be imposed; and ensures that only producers who expand marketings in excess of domestic demand growth rates be required to curtail marketings when the program is in effect.

Eliminate the special tax on all marketed sugar currently paid by sugar processors to the Federal Government and the one cent per pound forfeiture penalty that processors must pay if sugar is forfeited to the CCC.

Our industry is working hard with Congress and the Administration to solve immediate sugar policy threats—stuffed molasses and Mexico, and the current over supply problem.

We also seek a few basic changes to U.S. sugar policy that will restore long-term economic viability to the American sugar farmers, with ample benefits for our consumers, and at little or no cost to the American taxpayers.

A unified beet and cane sugar industry submitted testimony to the Senate Agriculture Committee hearing on July 17 that discusses these issues I have outlined in greater detail. We are on record as fully supporting that testimony. Thank you again for this opportunity to testify.

Chairman CONRAD. Thank you, Craig. Thank you very much for being here and for really excellent testimony. We really have faced threats from both north of the border and south of the border, the Mexican situation is most ominous, and of course the continued fundamental violations of our program through the stuffed molasses. It really is a fraud. I don't know any other way to term it. There is no such product as stuffed molasses and they know it and we know it. It's just a ruse to get around the rules. As you know, I went to the head of the customs, got them to change the way they treated it, and then of course we had an adverse court decision that ruled against that change. I want to report to you today that we now have a new court decision that reverses the lower court and is in our favor and says, yes, we have been right all along. What has been going on here is nothing but a sham and a charade and it ought to stop. I am hopeful that that court determination will be further upheld and it will get the kind of redress that I think is well deserved.

As you know, if countries can start to engage in this kind of mickey mouse by creating a product that doesn't exist, call it stuffed molasses and bring it into the United States, reconstitute it here and make it a sugar product, which it was all along, you know, everything is fair game. I mean if there are no rules in this international trading environment, well, then we can start to play games too. And I am very encouraged by this most recent court decision.

Next we go to Clarissa Mandan, representing the Intertribal Agriculture Council. Welcome, Clarissa. Good to have you here.

**STATEMENT OF CLARISSA MANDAN, ON BEHALF OF THE  
INTERTRIBAL AGRICULTURE COUNCIL**

Ms. MANDAN. On behalf of the Intertribal Agriculture Council. I'd like to thank Senator Conrad for your personal invitation to testify at this panel. We would particularly like to thank you for recognizing the Native American contribution to agriculture in this nation.

Like all producers in the state, we are very proud of the significant accomplishments of Team Dakota, and we look forward to working with you in the future. As a member of the Mandan Tribe I was present yesterday when you, Senator Conrad, were there for the Day-Tak Commission hearings, and as you know, as witnessed in yesterday's testimony, there were many severe impacts to our tribes from the taking of the 155,000 acres of Class I and Class II agricultural lands on the river bottom that were subsequently flooded.

One of the biggest impacts perhaps was the fact that the farm program payment income for some 50 years also went along with the potential production of those lands so Native American tribes in this state were denied those payments as well for 50 some years after the flooding. In fact the situation now exists on our Native American reservations in the state where the commodity crop lands are no longer operated by Native Americans but operated by non-Indians.

This has presented a situation in which we don't enjoy any of the income brought into this state and created from farm bill programs. And you talked earlier about the 40 percent level of net farm income and the 150 net level of farm income. I am sure we probably don't even meet 1 percent of level of net 1 percent, the Native American farmers and ranchers in the state. That is why we urge you, Senator, to continue the Senate 2501 Outreach Program in the new farm bill, the expansion of the Indian Extension Reservation Program, which has been very successful on the reservations that we do have it on.

We are also encouraging you, Senator, to preserve the direct loan program in the Farm Service Agency, as we do not have a credit industry on the reservations. We talk about stewardship, as colleagues around the table have talked about.

We are in support of the Stockmen's Association Grasslands Preservation Program as now the majority of our remaining agricultural lands on reservations, 49 million acres of them, are now grazing lands, and we have in the past provided very good stewardship of those lands and preserved them through BIA mandated leasing and contracting regulations, but we have never been paid for that conservation.

We are proud our Native American people have such a close cultural tie to the reservation lands that they have preserved them for over the past 150 years but we should be realizing some income and some farm bill benefit payments from that stewardship as well. Instead of USDA playing a major role in the economic recovery of our tribes the opposite has been true.

On Fort Bernal in Standing Rock we now have the dubious distinction of having the highest foreclose rate in the nation, as you are aware of, Senator. We have over 33 thousand acres on Fort

Bertha and 21,000 acres at Standing Rock currently at risk for foreclosure. That is why we have had over 850 some Native Americans file lawsuits charging discrimination in credit against USDA. That lawsuit now, we have received word from the judge that he intends to certify that class action lawsuit.

We're counting on your support, Senator, and those of your colleagues in negotiating a settlement in that action with the government, as well. We ask that one of the priorities that our tribes have identified and it has been in the Civil Rights Action Team Report and also in previous farm legislation as a mandate, is that the USDA begin to identify and recognize the reservation boundaries as the single service delivery area for the delivery of its farm bill programs. I don't know if you know that, Senator, it may be a little known fact, but the boundaries of the reservations that were established by the Fort Laramie Treaty nearly 150 years ago pre-date the boundaries of the state of North Dakota. They pre-date the boundaries of the counties, probably pre-date the existence of the Department of Agriculture, itself, as it was established by President Lincoln. I don't see why it should be such a problem to recognize those boundaries and to give reservations the complete service center delivery on reservation based on those boundaries. The other thing that is really important to recognize, Senator is that Indians did not even have the right to vote when those county boundaries were drawn. Those county boundaries were drawn in the late 1800's and early 1900's. We didn't receive suffrage until 1921, so we basically have been trying to operate under a system that has been imposed on us for the last 150 years.

We support maintaining the GPAs and the EQUIP Program and are supportive of the conservation program of EQUIP and WHIP, as well. They have been working successfully on the reservation. It is one of the few instances where we have been able to take advantage of the farm program dollars.

We also, as I mentioned earlier, like to preserve our lending status under FSA as we have nowhere to turn if we're graduated from FSA, or required to get guaranteed loans. Credit insurance and industry doesn't exist on the reservations so it is very critical to our people to retain those portions of the farm bill.

The other thing, Senator, I don't know if you are aware of, but we just received information that the American Indian Livestock Feed Program that was part of the disaster bills will now end. That has been one of the few programs that was created for reservations and recognizes reservation boundaries and gave tribal chairman the opportunity to declare disaster through the Tribal Council action. We'd like to continue that program. See it re-authorized, authorized on an as needed annual basis, because it absolutely means the survival of our Indian operators, farmers and ranchers on the reservations.

I would also in closing like to extend my regrets from Chairman Hall and Chairman Murphy who both had other commitments elsewhere who would have liked to have been here today to testify on the farm bill. Again I thank you for the opportunity.

Chairman CONRAD. Thank you very much. I appreciate all the witnesses very much. It's disruptive to schedules to make time for a hearing like this but it's critically important because this is our

way of communicating with Congress and making the case. If I could just take a moment and ask the witnesses this fundamental question.

With the President's change in position here, rather dramatic change, if we had to go back to not having the reserve fund available for writing a farm bill and we had to go back to what is the blue bar amounts, could we in your judgment write an adequate farm bill for North Dakota? Robert? I'll just go down the line.

Mr. CARLSON. Unquestionably no.

Mr. AASMUNDSTAD. No. Absolutely no.

Mr. TREGO. No way. Not even close.

Mr. HARRIS. Not for the good of the rural communities.

Mr. SKOGEN. It would be a race to the auctioneers if that were to happen. Agriculture couldn't exist, production agriculture, at that dollar level in North Dakota.

Mr. HALFMANN. I think it would be disastrous.

Mr. KLEIN. I agree. If we didn't have the additional dollars come in these last 4 years it would have been a disaster out in the country. In fact it would almost be a part of the program to make it viable.

Ms. MANDAN. Agricultural economic recovery for our tribes would not occur.

Chairman CONRAD. Thank you for that, I thank you for your entire testimony. This is, we have got a situation that has become far more complicated and challenging but look, we have been in complicated and challenging situations before, and we have come out of them, and this is absolutely essential that we pull together right now. This is, there is no more important time for us to pull in earnestly together, and to do our level best to tell the American people and tell my colleagues in the House and Senate that that level of funding is absolutely essential to write any kind of a decent farm bill.

Frankly at this level we are hard pressed to do everything that we know needs to be done. I tell you, our major competitors are watching, they are watching, and if we engage in unilateral disarmament again, shame on us, shame on us, because we have got an obligation to fight for our producers, just like our competitor's leadership fights for theirs. This is only fair to try to level this playing field to give our people a fair fighting chance.

I thank the witnesses, and I am going to open it up to the audience for anybody who would like to testify. Let me just say that we would like to limit the people from the audience to 1 minute. Statement or question. Given the shortness of time. I have indicated I have at noon commitment several blocks from here. A meeting with the President of the University and the Governor, and so we will do our best to accommodate as many witnesses as possible.

If you would state your name for the record, and say who you are representing and if you are representing your own views.

**STATEMENT OF GREG JOHNSON, FARMER, MINOT, NORTH DAKOTA, ON BEHALF OF THE NORTH DAKOTA DRY PEA AND LENTIL ASSOCIATION, BISMARCK, NORTH DAKOTA**

Mr. JOHNSON. My name is Greg Johnson, a farmer from Minot, North Dakota. I represent North Dakota Dry Pea and Lentil Association and also serve as chairman of the North Dakota Grower's Division of the U.S. Dry Pea and Lentil Council. As an organization representative, Senator, I want to thank you for the opportunity to appear here today and also for holding this hearing. We're a grass-roots organization. We represent growers, processors and other interested parties in production and marketing of dry peas and lentils and chickpeas, which by the way, we're one of the 11 leading crops producers in the United States here in North Dakota, and in doing so we would like to ask for representation to be included in the loan program. Currently—

Chairman CONRAD. The House bill, as I understand it, excluded you.

Mr. JOHNSON. We were excluded but we are going to keep plugging along. And currently we are an eligible program crop in terms of not having any prohibition for planting on program crop acres. However the farm bill does not take the next step for us and put policies on an equal footing with other program crops that are eligible for marketing loans and fixed payments. By not organizing a pulse crop safety net, the new farm bill will accelerate the current shift of acreage out of pulses and into crops that do have a safety net. We believe these crops should be included in the proposed loan and fixed payment programs because of their positive nitrogen fixing and rotational benefits.

Dry peas, lentils and chickpeas are grown in rotation with wheat, barley and oilseed. These legume plants require no nitrogen or phosphate fertilizer. In fact these legumes fix nitrogen in the soil. They also help break weed and disease cycles in cereal grains like scab and root rot. They are a vital component of a no-till/direct seed/minimal till cropping system that vastly improves our soil, water and air quality.

One of the major impacts that pulse crops have on North Dakota and the United States is it creates jobs in rural America. North Dakota has small processing plants in little towns such as Ray, Crosby, Richardton, Minot, Bowman and others, which employ anywhere from 5 to 20 full-time employees. These jobs have brought renewed hope and money to several small town communities in North Dakota.

These processors and jobs are in jeopardy of dying if the next farm bill does not treat all crops on an equitable basis.

It's vitally important that growers have the option to include these environmentally friendly legumes in their crop rotation. Equitable treatment of all commodities under the new farm program will allow farmers to make agronomic planting decisions, not solely economic decisions based on government programs.

Unfortunately the current agricultural crisis is forcing farmers to move away from the sound crop rotation in favor of stacking program crops that provide a safety net.

This is the conclusion of my statement. I have provided a detailed explanation of our industry's request for your review. I want

to commend you for the support of these crops in the recent past and we look forward to working with you to ensure peas and lentils and chickpeas are included in the next farm program in a balanced and equitable fashion with other commodities.

Chairman CONRAD. Thank you very, very much for coming here and being willing to testify. I appreciate that. If we can get a copy of statement for the record I know that would help the transcriptionist as well.

**STATEMENT OF TOM CHRISTIANSON, FARMER, LAMORE  
COUNTY, NORTH DAKOTA**

Mr. CHRISTIANSON. I am Tom Christianson, a farmer in LaMore County and I also represent the Soil Conservationists not only in North Dakota but as a member of the National Executive Board of Directors also nationwide. I might add these district supervisors are all locally elected or appointed people who represent the conservation needs at a local level. Truly a grassroots effort. We have been very pleased with the amount of attention conservation has been receiving in the last couple years in preparation of this farm bill.

Our national association has also conducted a farm bill task force and has come up with their own version of a conservation program, which I am very happy to hear today there is a lot of support for that type of effort. We do have one concern with the House bill at this time. We're very happy with the amount of dollars that have been increased in many of the programs but technical assistance has really been shorted. It does no good to add the dollars to the program if you have no technical assistance to help.

Those programs, and this goes for both houses, we need to watch this. And I want to thank you for bringing this hearing to North Dakota and appreciate all your past help and support for the districts.

Chairman CONRAD. Thank you very much. Thanks for providing that testimony and, as well, if you could provide a copy of your written testimony, I know that is a big assist to the transcriptionist.

Welcome. Good to have you.

**STATEMENT OF CLARK LEMLEY, FARMER, HOPE, NORTH DA-  
KOTA, ON BEHALF OF THE TRI-COUNTY MARKETING CLUB;  
ACCOMPANIED BY GARY WINTERQUIST**

Mr. LEMLEY. I am Clark Lemley, also a farmer from Hope, North Dakota here representing Tri-County Marketing Club which has most of its members in southern Steel County of North Dakota. We took the practicality of this proposed farm bill, put it into a computer, with the assistance of Gary Winterquist here, and we are providing that information also for you for the record to put cash-flow projections together comparing the old farm program with the new farm program.

Chairman CONRAD. First of all, thank you. That is a great assist to us. I appreciate it very, very much.

Mr. LEMLEY. Gary is right here. He is the one that basically put the numbers together.

Chairman CONRAD. Thank you very much. Why don't you stand up there and join him as he provides the results. Can you just give us a thumbnail sketch of what you found here?

Mr. WINTERQUIST. Thumbnail sketch of what we did. We made a like projection based on the old program which I call my 2001 projection which you will have submitted to you and a 2002, after changing to base acres and changing to a more current cropping rotation, what we're using in Steel County, government payments ended up about the same, when we get all said and done it really didn't make any difference.

The decoupling, counter-cyclical payment we made, estimated on what that would do to our farms for the year 2002 and we still ended up with a negative cash-flow and that is the concern of all your producers. However we finance these farming operations we're negative cash-flow, year in, year out.

Chairman CONRAD. Doesn't work, does it?

Mr. WINTERQUIST. Just doesn't work.

Chairman CONRAD. So let's make sure this gets on the record very, very clearly. You analyzed the bill that is going through the House, the so-called Combest Stenholm Bill, and you concluded based on a computer analysis comparing 2001 and 2002 that it did not change much the result and that you still saw negative cash-flow?

Mr. WINTERQUIST. Correct.

Chairman CONRAD. That is sobering.

Mr. WINTERQUIST. The one single biggest thing we did in our analysis said that if we could update our current yields, you are giving us the opportunity to update our current base, but the current yields would have the most dramatic impact to our farming operation.

Chairman CONRAD. In other words, the thing we could do to change what is going through the House, the thing that would have the most positive effect would be able to update yields?

Mr. WINTERQUIST. Correct.

Chairman CONRAD. How much difference would it make?

Mr. WINTERQUIST. In our situation, I think real quickly—first I might add while he is looking for this, too, Senator, we are dealing with the 1981 yield data. If we're back here with 1981 yield data, by the time this farm bill is over we'll be 23 years out of date.

Chairman CONRAD. It's a huge problem. We're dealing with yields that are not real. We might as well pick numbers out of the air as to be dealing with these yields. These are not the yields people are experiencing. We have had substantial increase in the productivity of our farming operations, and so to be stuck with yields that are right now 20 years old, at the end of this farm program would be 30 years old, leaves us with a fraction of what should be received with the program as designed. That is basically the point that you make with respect to this issue?

Mr. WINTERQUIST. Right. Our model farm using the old yields showed a negative approximately 10,500. In the updating we used the farmers current yields we came out with negative 10,500 to a positive 20,500. Now the farm cash-flows—

Chairman CONRAD. What a major difference that would make.

Mr. LEMLEY. But will it be a budget buster? That is the problem.

Chairman CONRAD. As I recall it would cost more, certainly if the President's new budget plan prevails all of this is out the window, we wouldn't even be, wouldn't even be in a position to talk about this bill. I am so glad you have done this analysis. It's very, very helpful, and could I have a copy of it?

Mr. LEMLEY. Yes, Senator you have a copy and there are copies available to you. We certainly appreciate your efforts today and in the past and also along with the disaster farm payments, we all know those were very important and vital to the viability of North Dakota farms. Thank you.

Chairman CONRAD. Thank you very much for being here to testify.

**STATEMENT OF STEVE STREGE, EXECUTIVE VICE PRESIDENT,  
NORTH DAKOTA GRAIN DEALERS ASSOCIATION**

Mr. STREGE. Steve Strege, North Dakota Grain Dealers Association.

Chairman CONRAD. Welcome, Steve. Thank you for your patience.

Mr. STREGE. One point to make is we are opposed to an expansion of the CRP. We believe that it is hard on our agribusinesses and main streets to survive. I will touch on a topic not brought up here today I don't think, and that is rail transportation. The production we are talking about here this morning has to be transported out of the state. We use very little of it here.

In North Dakota the Burlington Santa Fe is our common rail carrier. That railroad is now promoting a program of shuttle trains at a very few places and this we feel is working a real detriment. There is preferential rates and priority services given to a few locations and all others are left to wait or are way behind. They have installed an inverse rate which means that they can shift grain from eastern North Dakota to the west coast cheaper than they will from western North Dakota, which proves that their rates are very excessive. We need to put the heat on them to treat all their shippers equitably and to pass some legislation in Congress to put some controls on the railroads.

There are four large railroads that control the whole United States really, there are a few other small ones but there are four big class ones.

One other comment that we need also to keep our locks and dams on the Mississippi River in good repair so that there is some competition with railroads once we get the grain to the rail.

Chairman CONRAD. Thank you very much for your testimony. And if you have something in writing to submit we would certainly appreciate that. Maybe I could make one other point here and that is we will leave the hearing record open for at least 10 days so that if anybody here wants to submit something in writing, that they have the opportunity to do that.

Welcome.

**STATEMENT OF JIM BROTEN, CHAIRMAN, NORTH DAKOTA  
BARLEY COUNCIL, DAZEY, NORTH DAKOTA**

Mr. BROTEN. Jim Broten, chairman of the North Dakota Barley Council. I have submitted written testimony. All I want to say is

look at our industry, the unfair loan rate we have, and what has happened to it. It's now becoming a serious problem for the entire barley industry of the U.S. Thank you.

Chairman CONRAD. Jim, thank you. I think this is so important an issue to North Dakota that we take a minute and really focus on it. The House bill is totally inadequate with respect to barley, wouldn't you agree?

Mr. BROTEN. That is correct.

Chairman CONRAD. Wouldn't you agree that if we do not have a substantial change in barley policy to make it fair with respect to other commodities, that the continuing existence of the barley industry in this state is fundamentally threatened?

Mr. BROTEN. It certainly is. We'll see it go like oats. There won't be, my own neighbors, we used to be the second largest producer of barley in our county and we just aren't raising any barley anymore. You can't take it to the bank and show them that you have the guaranteed money there and the industry is just dying.

Chairman CONRAD. I just want to say this for the record so that it's very clear. The House bill to me is totally deficient in two places. Wheat and barley. And it is unacceptable, and we have got to have higher loan rates with respect to wheat and barley, and otherwise we're just rearranging the deck chairs on the Titanic. I mean that is what it amounts to. So I want to make it very clear. The House bill as it is is not acceptable to this Senator and I will not support it unless it is improved. We have got to insist on a better overall structure, especially for a state like ours. I know that we have got a barley industry and a wheat industry that are in extremely an difficult condition.

I had a barley farmer call me at home in Washington one night 2 weeks ago, 3 weeks ago now I guess, and tell me of the circumstances that he is facing in terms of negative cash-flow in his operation. I can tell you this is one of the most well respected farmers in the state of North Dakota. He has won virtually every award that agriculture has to give, including awards from this University that we're meeting at today. He told me unless something changes fundamentally he will not last another 3 years in the business of farming, and I tell you if people knew this man's name they would be shocked because this is one of the finest farmers, one of the finest people in the state of North Dakota. Happens to be in the other political party, I might add. Called me at home and told me, Ken, I don't want this revealed publicly in terms of attaching my name to it but I want you to know the reality of what is happening out here, and he has been a major barley producer, also a significant wheat producer, and I tell you he was very sobering.

He had his numbers with him when he called me, and he went through for the last 3 years in some detail, his income and his expenses. He went through the unfair treatment of both barley and wheat in terms of current loan rates, and he said to me, you know, we appreciate the House bill, it's certainly significantly better policy than what we have got now and we applaud Allen for moving the balance on that, but, boy, we have got, as a final result here, to get a better outcome for wheat and barley. Thank you so much for bringing it to our attention.

Mr. BROTEN. And thank you for your support.

Chairman CONRAD. You bet. I know we have run over here and the President of the University and Governor are waiting there but I want to give people a chance.

**STATEMENT OF WALLIE HARDIE, NORTH DAKOTA CORN  
UTILIZATION COUNCIL**

Mr. HARDIE. Wallie Hardie, North Dakota Corn Utilization Council. You probably heard our proposal the NCJS counter-cyclical income support proposal. The problem is when you focus on price too much especially as a feed grain you hurt your livestock sector, about 80 percent of corn grown in this country goes into something with hoofs and feathers so we don't want to focus all on price, we have to focus on income. Our proposal is a little bit different. I have submitted our written testimony.

Chairman CONRAD. Wallie, can I ask, on the 2000 level the thing that was not clear to me as I reviewed the proposal, is it at the 2000 level it's actually paid, or the 2000 level as contained in the last farm bill.

Mr. HARDIE. The 2002 level of the last farm bill. What the 2002 amount of payment would be according to our previous farm bill. That would be the continuing amount of payment in the next farm bill.

Chairman CONRAD. That was not clear to me, when it was—

Mr. HARDIE. Yeah, that is the number. That is what you will get. But the thing that we like about our proposal, and we ask you to consider it, is that it is non-production distorted, it's non-price distorted, non-trade distorted, and it's simpler than our current proposal. Thank you.

Chairman CONRAD. Thank you very much. I'm going to have to call the hearing to a close. I apologize to others waiting to testify but I simply can't be rude to the Governor and the President of the University who have been so generous in housing us, and the Governor who has been kind enough to testify here this morning.

So I am going to have to declare this hearing closed, but I will say this to others waiting to testify, "We are going to keep the hearing record open for 10 days and we will accept any written submissions in that time."

[Statements from the audience follows:]

Chairman CONRAD. I thank the audience. I apologize profusely but I simply can not be rude to the Governor.

[Whereupon, at 11:50 a.m., the committee was adjourned.]

